The Miyazawa doctrine

Why Asia is now the linchpin of Japanese foreign policy

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FINANCIAL TIMES

Europe's Business Newspaper

MONDAY JANUARY 11 1993

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US and EC seek to resolve Gatt talks this week

US and EC negotiators are meeting in Geneva in an effort to resolve outstanding differences in the Uruguay round of trade talks before US president-elect Bill Clinton takes office on January 20. Since the US and EC settled farm trade wrangles last November, the six-year-old round has been beset by several other disagreements and by political uncertainties on both sides of the Atlantic. Trade diplomats nevertheless hope that an outline deal can be agreed by next Friday. Page 12

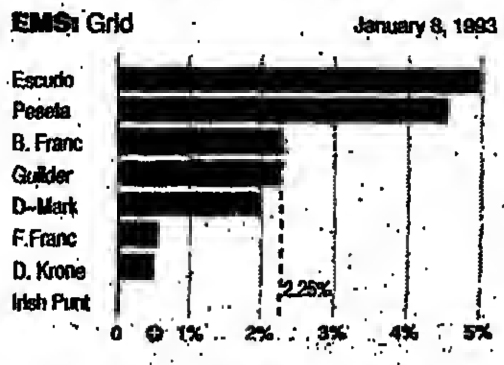
Italy to launch DM4bn Eurobond issue: The Italian government, absent from international capital markets for two years, is expected to launch a DM4bn ($2.5bn) Eurobonds issue to supplement depleted foreign currency reserves. Page 12

Hanson, UK conglomerate, is understood to have arranged to swap its gold mining operations in the US for the coal business of Santa Fe Pacific, the railroads and minerals group in a deal estimated to be worth $500m on each side. Page 13

Clinton warned on tax cuts: US president-elect Bill Clinton has been advised by Tom Foley, Speaker of the House of Representatives, to rethink his pledge to cut income taxes because of the growing federal budget deficit. Page 4

European Monetary System: The French franc starts the week looking a little stronger in the European exchange rate mechanism's grid, following last week's small cut in the Bundesbank's money market rates. It jumped one place at the end of last week, overtaking the Danish krone, and is now third from bottom of the table. The punt continues to look under pressure after a week in which it persistently traded below its ERM floor against two currencies, the Belgian franc and Dutch guilder. Currencies, Page 23

EMS Grid January 8, 1993



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Irish parties unite: Ireland's opposition Labour party ended almost two months of political uncertainty by approving a coalition deal with acting prime minister Albert Reynolds' Fianna Fail party. Earlier story, Page 2

Trafalgar House, construction, engineering and shipping group, has won a contract worth more than £100m ($152m) to build a coking plant for Bethlehem Steel in the US. Page 13

Bombay riots continue: Indian prime minister Narasimha Rao cancelled a visit to Bangladesh as Bombay and parts of Gujarat state saw the sixth day of Hindu-Moslem riots that have resulted in at least 168 deaths. Page 5

Angolan battle rages: Angolan army troops and rebels continue to fight for control of Huambo, despite government claims that it had captured the stronghold of Unita leader Jonas Savimbi who, it said, had fled. Page 5

First National Finance Corporation, troubled UK consumer credit group, is expected to ask shareholders for up to £50m ($75m) in its first rights offering since 1986. Page 14

Mozer pleads guilty: Paul Mozer, former head of government bond trading at US securities house Salomon Brothers, is to plead guilty to criminal charges that he lied about customer bids submitted at a 1991 bond auction. Page 4

Sihanouk climbs down: Prince Norodom Sihanouk of Cambodia has reversed a decision he took last week not to co-operate with the UN peacekeeping mission in Phnom Penh. Page 4

British Petroleum, UK oil company, already appears to be more than half way towards its 1993 target of raising $1.5bn through sales of non-core assets. Page 14

Braer route criticised: A former captain of the oil tanker Braer, which ran aground off the Shetland Islands last week, said he would never have sailed between Shetland and Orkney because the seas were too dangerous.

Savoy Hotel's managing director dismissed speculation of a renewed bid from the Forte group following news that the board could not rely on the support of a key investor in any takeover battle. Page 13

Malawi opposition rally: More than 100,000 people took part in Malawi's first officially approved opposition rally, organisers said. President Kamuzu Banda has agreed to a referendum on multiparty politics, banned since 1966.

Bull by the horns: The first calves whose sex was predetermined at conception have been born in Cambridge, England, a move that could transform livestock production worldwide. Page 12

Ford may decide to build new Jaguar car in the US

By Kevin Done, Motor Industry Correspondent, in Detroit

FORD, the US carmaker, is considering the development of a new medium-sized luxury car as its next world car programme in North America and Europe. The programme would include a version for Jaguar, its UK luxury car subsidiary.

The programme opens the possibility of building a car under the Jaguar name for the first time outside the UK, although Jaguar's preferred option would still be to assemble the vehicle at its main Coventry plant.

The scope of the project underlines Ford's determination to integrate Jaguar closely into the group, and follows its decision last year to build a new Jaguar engine range at Ford's engine plant at Bridgend, south Wales.

Last week the company unveiled the Ford Mondeo in Europe as part of its first world car project to replace the Ford Sierra in Europe and the Ford Tempo/Mercury Topaz in the US.

Since its takeover by Ford three years ago, Jaguar has planned to develop a smaller luxury sports saloon for introduction in the late 1990s to rival products such as the BMW 5 Series and aimed at more than tripling its production by the end of the decade.

Mr Louis Ross, Ford vice-chairman and chief technical officer, said this car and a replacement for Ford of Europe's Ford Granada/Scorpio executive car were under consideration as derivatives of a possible new Ford world car project, codenamed DEW98.

A version for North America would be a so-called "near luxury car" that would extend Ford's traditional Lincoln luxury car range and give the US carmaker a product with which to compete in North America against Japanese and European luxury car imports such as the recently unveiled Lexus GS 300, the Infiniti J30, and the BMW 5 Series.

The DEW98 project is not a confirmed programme, and the company has not decided where the European derivative versions would be built. Mr Ross said an important aim of the project was to integrate Jaguar more closely so that its new smaller car would have a common chassis platform with Ford.

BMW, the German executive and luxury carmaker, announced plans last year to build its first car plant in the US, and Mr Ross said the new Jaguar range could also be built in North America.

"It is possible to build it in the US. It would not take anything away from Browns Lane [Jaguar's Coventry assembly plant]", as this would be additional volume, he said.

Jaguar's preferred option was to build the car in Coventry, said Mr Ross, but it was still "an open issue . . . they are not adamant, they are willing to consider".

The marketing impact on the

Continued on Page 12

Peace talks remain deadlocked

France may use force over camps in Bosnia

By Robert Mauthner in Geneva and Alice Rawsthorn in Paris

FRANCE said yesterday it was prepared to act alone if necessary to liberate by force Bosnian prisoner camps where civilians are reported to have been raped and tortured.

The threat, revealed by Mr Roland Dumas, foreign minister, came as negotiations for a peace settlement remained deadlocked in Geneva.

Speaking on France's RTL radio, Mr Dumas said: "I suggest ... we ensure that this liberation is put into effect if necessary by force, since we now have the legal right to intervene and there is evidence of the existence of these camps and of tortures and rape that are committed there."

Mr Dumas said he had asked the French United Nations commander in Sarajevo, General Philippe Morillon, whether he had the military means to carry out the mission of escorting convoys to the prisoner camps. "He replied in the affirmative."

Any such action would go against the appeal by Mr Boutros Boutros Ghali, the UN secretary-general, that international military intervention should be delayed to give peace a last chance. Mr Cyrus Vance and Lord Owen, co-chairmen of the Geneva peace conference on the former Yugoslavia, have made similar appeals.

Mr Dumas's statement, which follows the assassination in Sarajevo on Friday by a Serb militiaman of Mr Hakija Turajlic, the Bosnian deputy prime minister, will fuel the debate over possible western military intervention in Bosnia-Hercegovina. France has taken a stronger line in favour of UN intervention against the Serbs than many of its international allies, but has so far heeded the UN negotiators' request not to take military action.

French officials said Mr Dumas's plans to liberate the Bosnians from Serbian camps would only be implemented with the UN's sanction.

In Geneva new proposals by

Continued on Page 12

Turkey takes Moslems under its wing, Page 3

Serb leader Radovan Karadzic (right) studies proposals put forward yesterday during the conference on former Yugoslavia in Geneva

Iraq denies yielding to US threats

By Jurek Martin in Washington

IRAQ continued yesterday to deny it had retreated in the face of the United Nations ultimatum on its missile deployment, but the prospect of an early military strike by the US-led coalition appeared considerably reduced.

An official statement issued in Baghdad stated it was "incorrect" to conclude that "Iraq gave in to threats from Bush's administration". Simultaneously, Iraq continued to ban internal flights of UN aircraft.

It denied permission yesterday for a UN aircraft to land, and inspectors of the Baghdad office of the UN Special Commission (Unscom) were stranded in Bahrain waiting for permission to fly.

On Saturday a White House statement said the US was satisfied that Iraq had "backed down" in its latest conflict with the US and its allies.

Yesterday US officials did not think the ban on UN aircraft carrying weapons inspectors would necessarily escalate quickly into a confrontation equivalent to last week's, although the potential for this clearly existed.

Some tentative encouragement was also drawn from the Iraqi statement, which hoped for better relations with the incoming government of President-elect Bill Clinton. It accused Mr George Bush of trying to "embroil" Mr Clinton in his policies.

On the other hand the US is still not persuaded that Iraq has fully met the terms of last week's UN ultimatum. Although its

Continued on Page 12
Editorial Comment, Page 11

Danish visas scandal may lead to fall of government

By Hilary Barnes in Copenhagen

POLITICAL TENSIONS are growing in Denmark amid fears that prime minister Mr Poul Schlüter's government might fall following the publication of a report into a scandal involving visas for Tamil refugees, due to be released later this week.

A judicial inquiry was set up to investigate an instruction by the minister of justice in 1987 to civil servants to delay issuing entry visas to Denmark for the relatives of Tamil refugees from Sri Lanka who were already in the country. It is expected to release a 6,000-page report on Thursday.

The opposition Social Democratic party, led by Mr Poul Nyrup Rasmussen, hopes to exploit the report to bring down the minority Conservative-Liberal coalition government and return to office after 10 years in opposition.

In the markets, currency analysts are worried that political uncertainty generated by the report could damage the Danish krone, one of the European exchange rate mechanism's weakest currencies. This would follow last week's intense pressure for a devaluation of the French franc and punt in the ERM. "People are worried about the uncertainty that would be caused if Tamilgate led to the resignation of the government. This would make it difficult to hold the currency up," said Mr Kit Juckes, international economist at Warburgs Securities. The prospect of political turmoil had already frightened people out of the Danish bond market, he added.

Developments are also being watched in the European Community as Denmark took over the six-month EC presidency at the beginning of this month.

Mr Schlüter was not directly involved in the Tamil affair, but one of the questions which High Court judge Mogens Hornslett's report will seek to answer is whether the prime minister misinformed parliament when he reported on the affair in April, 1989, concluding his speech: "Nothing has been swept under the carpet".

If Judge Hornslett's report contains explicit or implied criticism of Mr Schlüter, he will come under strong pressure from the opposition to resign. Mr Schlüter has repeatedly said he will call an election if the opposition tries to "misuse" the report for political ends.

Another possibility is that he would hand the baton to a party colleague, such as Mr Henning Dyremose, minister of finance, but there is doubt whether a majority in the parliament would tolerate a change in prime minister in this way.

The attitude of the parties to the report may take some days to clarify. The Radical Liberal party, whose seven MPs hold the swing position in the eight-party, 179-member parliament, has said it will make its view known on January 17, after a joint meeting of the party's parliamentary members and the party's national executive committee. It is not clear whether the Radicals want a change of government. The party forms part of the parliamentary base for the present government, nominating Mr Schlüter for another term after the 1990 election, but does not always vote with the government.

The affair began in 1987, when Mr Erik Ninn-Hansen, veteran Conservative party colleague of the prime minister, in his capacity as minister of justice, ordered civil servants to delay issuing entry visas for relatives of Tamil refugees from Sri Lanka who were already in Denmark.

Mr Ninn-Hansen said he was within his rights to order "reduced priority" for processing the visa applications, but the parliamentary ombudsman and other legal experts assert that the action was in breach of the law.

New Irish leaders face trial by fire ....Page 2

Austria	Sch30	Greece	Dr300	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	India	Rs40	Neth	Fl 3.75	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr15		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr16.00	Switz	SFr3.20		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Syria	S£50.00		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr8.50	Kuwait	Fils 600	Poland	Zl 22,000	Turkey	L6000		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Esc215	UAE	Dh11.00		

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Bérégovoy fires election salvo on jobs

By Alice Rawsthorn in Paris

MR Pierre Bérégovoy, the French prime minister, yesterday kicked off the Socialist party's election campaign by calling on the next French government to reduce unemployment from 10.5 per cent to 8 per cent by 1998.

Joblessness has emerged as a dominant issue in the approach to France's parliamentary elections in March. The rise in unemployment – now nearing 3m – is one of the biggest sources of embarrassment for Mr Bérégovoy and the ruling Socialists, who face an uphill struggle in their attempts to improve their dismal opinion poll performance.

Mr Laurent Fabius, first secretary of the Socialists and the leader of their re-election effort, yesterday acknowledged that unemployment was his party's "major weakness". He told a Socialist conference in Paris that the party had to "get to grips with the issue".

The right-wing opposition has already begun its attack on their unemployment record. Mr Eduard Balladur, who is tipped to be prime minister of a future right-wing government, warned on television that there would be "hundreds of thousands more people without jobs" in the first half of this year as the economic squeeze continued.

However Mr Balladur ruled out the possibility of artificially stimulating the French economy by devaluing the French franc. "It would be against the national interest," he said. "I will do everything to avoid the franc being devalued."

His support for the franc was echoed by Mr Bérégovoy, who, since the September currency crisis, has backed the Bank of France's efforts to protect the currency against attacks by the foreign exchange markets.

"As long as I am prime minister the franc will not be devalued," he said in an interview with Journal de Dimanche newspaper.

Both the left and right are developing plans to restimulate the economy and curb the rise in unemployment be creating jobs. Mr Bérégovoy said his target of 8 per cent jobless by 1998 would be achieved partly by a European Community initiative to cut the working week to 37 hours and partly by employment reform.

The Socialists have already tabled proposals to modernise employment practises by encouraging job sharing and part-time working. Mr Fabius said these reforms should be accelerated to boost job creation through public sector initiatives such as housing programmes.

In the meantime the government has to get to grips with the financial problem of the rising social security budget deficit, estimated to have reached FFr30bn (£3.64bn) in the past three years. Ministers are expected this week to announce proposals to allocate an extra FFr20bn to reduce the deficit.

Christopher Brown-Humes on the fourth financial package in a year

Sweden tries again to beat the budget deficit

WHEN Ms Anne Wibble, Sweden's finance minister, presents the country's 1993-94 budget today there could be a strong sense of *déjà vu* about its contents. This, after all, will be the fourth package of financial measures to be proposed by the minority coalition government since this time last year – if you include two crisis packages in September and a third, later withdrawn, when the krona was floated in November.

As before, the emphasis will be on cutting public spending, however unwelcome this might be for the government when its counterbalancing tax-cutting plans have been stymied by deep recession. In reality it has little choice but to cut further, despite the spending reductions of SKr68bn (£6.3bn) it announced last year, as the budget deficit is still growing.

With gross national product set to decline for the third consecutive year in 1993, the government knows that if it cuts benefits too heavily it risks a further drop in private consumption and a delay to economic recovery. It also knows that if it tries to spend its way tc recovery it might inflame the deficit further.

Hence it is likely that the package will have a longer-term flavour to it, incorporating both a strong savings element and measures that accord with the government's free-market strategy to encourage private initiative. The trick will be to minimise the near-term impact on demand while doing enough to convince nervous markets that Sweden is still serious about tackling its budget deficit.

According to one leaked report, a total of SKr90bn in savings will be outlined, but only SKr10bn-12bn of this will take effect in 1993-94, while a further SKr20bn a year will be enforced over the following four years (well after the government's current mandate expires) when the economy should be in better shape.

But many observers feel that even cuts of this order are not sufficient, in the context of a budget deficit which this fiscal year (1992-93) will reach SKr200bn and is unlikely to be much lower next year. Even SKr10bn in savings next year is only equal to the amount the government was forced to provide in guarantees to just one of its stricken banks last week.

If the government is not tougher, it is partly because of political realities. Its measures need tbe support of either the Social Democrats or the populist right-wing New Democracy party. The Social Democrats, who now command 45-46 per cent popularity ratings in the polls, supported the first two crisis packages but refused to back the third.

In addition, the government has to take account of the effect its actions will have on interest rate and currency movements.

Interest rates have come down since the devaluation, with the central bank's key marginal rate of 10.5 per cent now 2 percentage points below what it was before the krona was freed. However, this is still high by international standards and the pain in the domestic economy is considerable.

The scope for further reductions is being undermined by the steady weakening of the krona, which has now fallen by 20 per cent against the dollar since the devaluation. The government is determined to maintain its anti-inflation credentials, not least as part of its strategy of participating in European monetary union.

But worries over the size of the government's borrowing requirement saw market interest rates edge higher last week.

Anne Wibble: may have trouble winning other parties' support

The main worry remains the budget deficit, which is now nearly three times the SKr70m level predicted a year ago, having been exacerbated by falling tax revenues, rising unemployment and the cost of bailing out the crisis-stricken banking system.

Funding the interest on its debt is now the government's single largest outlay.

The government will be hoping its calculations are more sccurate this year. However, its sums conid easily be thrown out by developments within the domestic economy – with unemployment set to rise further from its current 7.3 per cent level and the banking crisis yet to show signs of bottoming out – as well as abroad.

In any case, it will be desperately hoping for some signs of economic recovery during 1993, an election year, and the last thing it will want to do next January is to present another austerity package unrelieved by any handouts.

New Irish leaders face trial by fire

By Tim Coone in Dublin

A NEW coalition government will take office in Ireland this week and will have to confront the country's most serious currency crisis since 1986, when the punt was last devalued.

The government is likely to be formed tomorrow following a vote to parliament to elect a new prime minister.

The Labour party was expected to give its final seal of approval last night to the coalition programme, paving the way for a government to be formed.

Fianna Fail has been running a minority, caretaker government since the general election last November, in which no party won an absolute majority.

The two parties reaffirmed this weekend that they would continue to support the no-devaluation policy of the outgoing government.

The punt is expected to come under renewed pressure in the currency markets this week, despite an increase in overnight lending rates to 100 per cent by the central bank on Thursday.

Two of Ireland's leading building societies have warned, however, that they may be forced to raise mortgage rates this week if the currency and interest rates crisis continues. Many analysts believe a further mortgage rate increase would deal a crippling blow to the economy and force the government to devalue.

Mr Ruari Quinn, the Labour party's economy spokesman, said yesterday that Ireland's currency crisis "is a European political problem requiring a European political response".

Last week Mr Bertie Ahern, the finance minister, expressed disappointment with his EC colleagues for failing to tackle the ERM crisis and called the German agreement to support the French franc a "sweetheart deal" which had not been made available to the other currencies in the central band of the ERM.

UN set to press Bonn on greater role for military

By Judy Dempsey in Bonn

THE United Nations secretary general, Mr Boutros Boutros Ghali, today begins a two-day official visit to Bonn and will tell the German government that it cannot expect a permanent seat on the UN security council, or play a greater role in the organisation, until, and unless, it defines the role of its army outside Nato.

The secretary general will also outline plans to reform the UN in talks with President Richard von Weizsäcker, Chancellor Helmut Kohl, Mr Klaus Kinkel, the foreign minister, and leaders of the main parliamentary parties.

UN officials believe the outcome of the talks could help the country's main political parties reach a consensus on how the constitution could be amended to allow the Bundeswehr (German army) to become more involved in non-Nato operations outside Germany.

Article 87 of the German constitution stipulates that the use of German troops must be limited to self-defence on its own territory, while article 24 allows Germans to fight alongside allies in joint security pacts, such as Nato. Since 1949, the federal government has consistently adopted the political position that the constitution does not allow the deployment of German forces outside the Nato area.

The mood among some of the political parties is shifting towards constitutional amendments enabling German troops to participate in UN peacekeeping operations, and UN-backed humanitarian efforts.

Any change in the constitution would require a two-thirds majority of the Bundestag, and support from the opposition Social Democratic Party. So far, there is little consensus among the governing coalition of Christian Democratic Union/ Christian Social Union and Free Democrats, and the SDP on the Bundeswehr's future role.

The CDU/CSU want the Bundeswehr to be engaged in international operations even outside the auspices of the UN, when it is necessary for peace. The SPD wants the Bundeswehr to be linked directly to any UN security council resolution, and limited to peacekeeping operations, although the SPD is considering involvement in the military protection of humanitarian aid convoys. The FDP wants any peace-enforcing missions hy the Bundeswehr to be carried out under the auspices of the UN.

"We cannot express our intentions [of any future involvement in the UN] until we have come to grips with this constitutional problem," a Foreign Ministry official said. "We hava to come to grips with this problem over the coming months otherwise we will face a credibility gap with the international community."

Germany, which is the third largest contributor to the UN, has already deployed 1,500 soldiers in Cambodia in the form of medical back-up and supplies, and has provided aircraft and pilots to help the Somalia relief operation.

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LEGAL NOTICES

NEWS: INTERNATIONAL

Ukrainian 'progress' on N-arms

By Chrystia Freeland in Kiev

UKRAINE has made progress in efforts to obtain security assurances from the west in exchange for becoming non-nuclear, authorities in Kiev said yesterday.

Mr Borys Tarasiuk, deputy minister of foreign affairs, said a draft agreement in which leading nuclear powers, including Russia, would pledge not to attack Ukraine had been prepared and was being discussed with the western nuclear states. "There are no doubts in anyone's mind that this question will be resolved," he said on his return from Washington, where he met President George Bush.

Ukraine, which has 176 intercontinental ballistic missiles on its territory, is the key to the Start 2 disarmament agreement between Russia and the US. Until Ukraine ratifies the earlier Start 1 treaty to remove all nuclear weapons from the country, Start 2 cannot go ahead. The Ukrainian parliament is hesitating over Start 1 in an attempt to win security guarantees and financial assistance from the west.

Ukraine's attempt to win security assurances is aimed at establishing a shield against Russia, which would remain a nuclear power even if Start 2 were implemented.

But to avoid singling out its powerful northern neighbour and to tie the west into the security arrangement, Mr Tarasiuk said, Ukraine was seeking simultaneous security assurances from the US, France, the UK and Russia. British diplomats in Kiev confirmed that the UK was involved in negotiations.

It is the Ukrainian parliament, not the government which must ratify the START 1 pact, and attitudes there are toughening to the extent that even the security arrangement described by Mr Tarasiuk may not be enough.

Mr Olexander Tarasenko, a senior member of parliament's defence commission, said he had little confidence in Mr Tarasiuk's assurances.

"Mr Tarasiuk appears rather optimistic after his trip. More attention should be paid to the interests of Ukraine rather than to what one person or another is saying," he told Reuters.

"We have discussed this question informally in the commission and came to the conclusion that no one will in fact provide us with security guarantees." Mr Tarasenko is one of about 70 members representing farming interests and embodies some of the more conservative viewpoints in Ukraine's parliament.

He said parliament had put ratification of Start 1 and the Non-Proliferation Treaty at the top of its legislative agenda and would debate both documents soon after deputies resumed work in mid-January.

Other deputies have said a heavy parliamentary agenda dominated by economic reform a year after independence from Moscow would push the ratification debate back until February or March.

Minister urges arms for Bosnians

By Alice Rawsthorn in Paris

MR Bernard Kouchner, France's minister of health and humanitarian affairs, has urged the United Nations to amend its arms embargo against the former Yugoslav states to allow Bosnians to arm themselves against Serbian aggression.

"How much longer can we allow the Bosnian Moslems to be defenceless?" Mr Kouchner said in an article in *Le Journal de Dimanche* newspaper.

Mr Kouchner's flamboyant campaigns to focus world attention on the crises in Bosnia and Somalia have struck a chord with the public but not among fellow politicians.

His appeal for help for the Bosnians, and the intervention by Mr Roland Dumas, the French foreign minister, yesterday comes as their plight is put under the spotlight in France during the run-up to March parliamentary elections.

President François Mitterrand on Saturday met in Paris with Mr Alija Izetbegovic, the Bosnian president, who urged the French to press their allies to intervene in the Bosnians' defence. The French president is believed to have promised that he would raise the issue of intervention with other western leaders.

Senior politicians from both sides of the French political divide have already called on the UN to step up its efforts to protect the Bosnians.

Mr Edouard Balladur, a favourite to become prime minister if the conservatives win the March elections, yesterday urged the UN to act.

Turkey takes Moslems under its wing

Ankara is arguing for force against Serbs, writes **John Murray Brown**

THANKS to Turkey's lobbying and the loan of the Turkish president's private jet, Mr Alija Izetbegovic, Bosnia's Moslem leader, should get a hearing at today's special meeting of Islamic Conference countries in Senegal.

Turkey, a Moslem country with a devoutly secular constitution, is today in the curious position of outdoing even the most radical Islamic states in defence of Bosnia's Moslems.

For more than six months Turkey has been a lone voice within the North Atlantic Treaty Organisation calling for military intervention to prevent the carve-up of the former Yugoslav republic.

Turkey was quick to offer troops but the UN has indicated its opposition to involving such regional countries in peacekeeping.

"Turkey in some ways is in a no-lose situation," says a western diplomat. "It can offer a battalion, a division, the whole Turkish army in the safe knowledge that the UN would never accept."

The move has done much to allay criticism of the government amid growing public outrage at the failure of the international community to curb Serbian aggression.

Primary school pupils are raising money for refugees from the conflict. After the latest reports of Moslem rape victims, the government despatched a team of abortionists. Turkish opposition politicians have sought to extract mileage from high-profile visits to the region.

A 13-year-old girl holds the marker for her uncle's grave yesterday in Sarajevo's Lion cemetery. The Bosnian soldier was killed during fighting near the city's Otes suburb

The reason for Turkish concern is partly historical. While *officials are quick to disclaim* irredentist ambitions towards their country's former Ottoman dependencies in the Balkans, Bosnia is often casually described as part of the Turkish nation.

There are after all an estimated 2m Slav "Bosnaks" in Istanbul and other cities, who first settled in Turkey as the empire collapsed. Many are prominent in Turkish business and society.

Having turned its back on its imperial past some 70 years *ago*, republican Turkey *today* finds itself, however reluctantly, as the moral protector of those communities whom the Ottomans converted to Islam. As Mumtaz Soysal, a leading Turkish commentator, sees it: "It's not unlike the way western powers, particularly the French, sought to guarantee the rights of the Christian minorities under the Ottoman Empire."

As Turkey sees it, if Serbian aggression is not met by force in Bosnia, the crisis could reawaken other ethnic conflicts, dragging in all the regional powers, Turkey, Greece, Albania and Bulgaria, and perhaps even the Russians.

At a hastily convened Balkan foreign ministers meeting in Istanbul in November, Turkey voiced concern over Kosovo, the previously autonomous region on the Albanian border which Serbia in effect re-annexed three years ago.

Turkey has close ties with Albania and could be dragged into a conflict if Albania sought to defend Kosovo's 2.5m ethnic Albanians.

The Turks argue that inaction on the part of the west will also help fuel a more radical Moslem reaction, which in the long run will damage the case for Turkey's own position in the heart of Europe.

In the public mind, the Bosnian crisis has already been reduced to a simple conflict of Christian against Moslem, which has not made it any easier for the government to steer a moderate course.

The OIC set January 15 as an *informal deadline for the* international community to take action. Turkish officials say the threat of unilateral military intervention by the OIC is only "an insinuation" and that any military action will have to be under UN auspices.

In practice, given the naval blockade, it is hard to see what the OIC can do. Mr Hikmet Cetin, foreign minister, last week suggested the Islamic countries could impose an oil embargo on western countries to force action.

This may have been *the* foreign minister indulging in domestic politics. His Social Democrat party, the junior partner in the coalition, is currently challenged by Republican People's party leader Deniz Baykal, whose trip to Sarajevo grabbed the Turkish headlines last week.

However, the suggestion is further evidence of Turkey's growing frustration over the Bosnian crisis.

France and Germany seal deals just in time

David Waller and Alice Rawsthorn on two linked financial services deals

TWO related Franco-German financial services – deals have come to fruition at a symbolic moment: just in time to catch the opening of Europe's single market. On December 30, shareholders in Aachener und Münchener Beteiligungs (AMB), Germany's second biggest insurance group, finally approved the DM1.9bn (£780m) sale of a majority stake in BfG Bank, Germany's *sixth biggest bank*, to France's Crédit Lyonnais.

At the same time, they voted to *allow Assurances Générales* de France (AGF), the large French state-owned insurance company, to have full voting rights over its 25 per cent stake in AMB.

The timing of the vote – reached only after last-minute uncertainties threatened to unhinge the transactions – was highly appropriate.

These interlinked cross-border deals are flavoured with a dash of opportunism. But they are driven fundamentally by the opportunities provided by the single market.

AGF will be able to participate in the reshaping of the German insurance market. And Crédit Lyonnais will become the only foreign institution to own a large commercial bank in Germany, fulfilling a long-standing ambition to break into Europe's largest market for financial services.

Significantly, international jostling to take advantage of forthcoming German liberalisation has been almost exclusively a Franco-German affair. Despite the UK's pretensions to preeminence in financial services, British banks and insurance companies have been on the sidelines.

Germany's insurance market, Europe's biggest, with annual premiums worth DM180bn is set for considerable changes from 1994 onwards as European Community directives take effect.

The directives will free commission structures in many hitherto protected sectors. Domestic institutions have already started taking positions in anticipation of these changes.

Deutsche Bank, the country's biggest bank, has bought large stakes in two insurance companies. Allianz, the market leader, is in the process of restructuring its domestic operations.

Liberalisation *should* in theory provide opportunities for other European insurance companies. Building operations from nothing is difficult, however, mainly because establishing a distribution network is prohibitively expensive.

The most reasonable approach is thus to buy – or wield influence over – an existing insurance company. Opportunities here are limited and AGF's deal with AMB – expected by analysts to lead eventually to full control – will give it *the biggest stake* in the German insurance market of any foreign company.

If the deal between the insurance companies ended harmoniously, the path to completion was paved with confrontation.

Until last summer, AMB regarded AGF's stake-building as hostile. The German company's strategy for Europe centred on a loose cross-marketing agreement with Fondiaria of Italy and Royal Insurance of the UK, from which AGF was excluded.

The basis for the two insurance companies' reconciliation was that AGF would help find a buyer for BfG. This it did, by bringing in state-owned Crédit *Lyonnais*.

The transaction thus closed an important chapter in AMB's troubled venture into banking, which started with the purchase of a majority stake in BfG Bank over five years ago.

The BfG purchase gives Crédit Lyonnais around 200 branches in the east and west of Germany. Crédit Lyonnais shares the BfG management's view that BfG is leaner and fitter than many of its domestic competitors after drastic rationalisation.

AGF's tactics in its battle for AMB are being adopted by Union des Assurances de Paris (UAP), another state-controlled company which is AGF's arch-rival in France. UAP is *fighting for control of Colonia*, one of the largest German insurers, and also recently took a 37.4 per cent stake in Nordstern, another large German insurance company.

In this tussling for market share on the continent, British insurance companies are playing a much more low-profile role.

However one senior French insurance executive believes the basic reason may be cultural. "It is difficult to imagine any co-operation with a British company," he says dismissively. "It is a question of mentality. The British are convinced they are better than the continental Europeans, and simply cannot work with them."

Foley warns Clinton to rethink plan to cut income tax

By Jurek Martin in Washington

MR TOM FOLEY, the Speaker of the House of Representatives, yesterday advised President-elect Bill Clinton to rethink his campaign promise to cut income taxes on the middle class because of the growing federal budget deficit.

In a TV interview, Mr Foley said it was "probably true" that some popular social programmes would have to be curtailed and some taxes raised in the light of the deficit problem. He urged Mr Clinton not to duck such tough choices, saying "people are mature enough to be told the truth."

He thought Mr Clinton should have his legislative programme ready "reasonably soon", but not necessarily immediately after the inauguration next week. There was not, he added, "a use-it-or-lose-it momentum" problem for the new president, since both Republicans and Democrats were willing to support the right sort of policy proposals.

Last week, the outgoing Bush administration produced its final economic projections pointing to wider, not narrower, deficits, assuming no policy changes. Forecasting shortfalls of over $300bn (£193bn), they seemed immediately to call into question Mr Clinton's promise to cut the deficit in half in his first term.

Mr Richard Darman, Mr Bush's budget director, also publicly questioned the wisdom of some of Mr Clinton's ideas, claiming that "they do not add up." This prompted a tart reply from the president-elect to the effect that Mr Darman's maths had not proved so reliable either, as the final deficit forecasts showed.

The Clinton economic team met in Little Rock last week to review policy options but announced no conclusions beyond acknowledgment of the severity of the deficit problem. This, in itself, may imply that the tax cut is to be deferred.

There is some concern in Washington about the slowness in the formation of the new government.

Although all the cabinat appointments were in place before Christmas, none of the critical policy-making positions at the next tier have been formally announced, though rumours of recruitmant abound, including that of Mr Larry Summers, the Harvard economist, to be treasnry undersecretary for international affairs.

See Monday Column, Back Page, second section

Foley: says social programmes would have to be curtailed

McCurdy the victim in Congress feud

By Jurek Martin

WASHINGTON knows no fury like a speaker scorned. This is the conventional interpretation of last Friday's decision by Mr Tom Foley, the speaker, to remove Congressman Dave McCurdy, the rising star from Oklahoma, from the chairmanship of the House intelligence committee.

Yesterday, for the record, Mr Foley flatly denied he wanted to take Mr McCurdy down a peg.

Intelligenca committee members were only snpposed to serve for six years, whereas Mr McCurdy had done nine, the last two as chairman, he said. "I thought othera should hava the opportunity to serve," he added, while praising Mr McCurdy's "credible and innovative" chairmanship of the panel.

In reality, Mr McCurdy, 42 and fairly close to President-elect Bill Clinton, has been a thorn in Mr Foley's flesh for some time.

At the height of the House bank scandal last year, he questioned the speaker's leadership and even spoke of launching a challenge for his job. Mr Foley was returned unopposed to his position last month.

More recently, Mr McCurdy had seemed to be campaigning a little too openly for the position of secretary of defence or possibly director of the CIA in the Clinton cabinet. This put him up against Mr Les Aspin, the chairman of the House armed services committee eventually chosen for the Pentagon joh.

Mr Aspin and Mr Foley are close. Adding insult to injury, Mr McCurdy took to warning that if Mr Aspin did move into the cabinet, the next person in line for the committee chairmanship would be Mr Ron Dellums of California, the dovish black congressman from California.

Whatever his policy inclinations, Mr Dellums is also very much a senior member of the House leadership club under Mr Foley's direction.

Mr McCurdy has also been a prominent member of the Democratic Leadership Council, the southern-dominated centrist grouping in which Mr Clinton was long active.

The DLC and its think-tank, the Progressive Policy Institute, provided many ideas for a successful presidential campaign, from which the congressional leadership sometimes felt a little excluded.

Mr McCurdy himself issued a statement on Friday seeming to acknowledge that the speaker had put his foot down. He cited Mr Foley's "desire to place his own team" on the intelligence committee.

He remains, however, a member of the armed services committee, with plenty of opportunity to get his views over.

Mozer to plead guilty

By Patrick Harverson in Naw York

MR PAUL MOZER, former head of government bond trading at Wall Street securities house Salomon Brothers, is to plead guilty to criminal charges that he lied to Treasury officials abont customer bids he submitted at a 1991 Treasury securities auction.

After concluding a plea agreement with federal prosecutors, Mr Mozer will appear before a Manhattan court this morning to plead guilty to two felony counts that he falsified bids, in tha names of Salomon customers Warburg Asset Management and the Quantum Fund, at a February 1991 auction of five-year treasury notes.

The hids were submitted without the knowledge of either customer, and enabled Mr Mozer to obtain a greater share of the newly-issued securities for Salomon than government rules allowed.

Mr Mozer has paid $500,000 (£323,000) into a government escrow account to meet any judgments against him by the Securities and Exchange Commission or by private civil claims that relate to his bidding activities.

Although the two felony charges carry a maximum sentence of 10 years in prison and a $500,000 fine, a special hearing will be beld to determine how mnch money, if any, investors and other trading companies lost as a result of Mr Mozer's actions.

The severity of the sentence will be determined by the hearing's findings.

Mr Mozer's lawyer, Mr Stanley Arkin, maintains that no money was lost because of his actions, and that neither Mr Mozer nor Salomon profited from the false hids. Mr Arkin also points oot that Mr Mozer has pleaded guilty to "administrative violations" that he has long conceded were wrong, and argues that the violations were not severe enough to warrant criminal proceedings.

Peruvian economy minister appointed

By Sally Bowen in Lima

MR Jorge Camet Dickman, Peru's industry minister for the past eigbt months, has been appointed economy and finance minister following last week's surprise departure of Mr Carlos Boloña.

Mr Camet, 65, has a track record as a successful engineer and entrepreneur, and bae twice presided over Peru's private businessmen's association. However, he has no background in economics and only limited knowledge and experience of tbe complex workings of the international financial institutions with which he will be obliged to negotiate in the coming months.

Mr Camet has so far made no statement of substance on modifications to economic policy. He claims the general direction towards stabilisation and structural reform will continue and key members of the Boloña team are expected to stay on at the Economy Ministry.

Recently botb President Alberto Fujimori and Prime Minister Oscar de la Puente have reiterated the necessity of promoting industrial reactivation and raising social spending to create jobs and help the poor.

Chile to brief Hurd on Moyle death

By Leslia Crawford in Santiago and John Barham in Buenos Aires

BRITISH Foreign Secretary Douglas Hurd, who arrived yesterday from Argentina on a two-day visit to Chile, is to discuss with Chilean officials the unsolved murder of Mr Jonathan Moyle, a British defence journalist killed in Santiago three years ago.

Mr Hurd was expected to be hriefed by the Chilean Foreign Ministry on the slow progress of the murder inquiry. So far, the inquiry has failed to shed any light on the assassination, which was made to look like suicide.

Mr Moyle, the 28-year-old editor of Defence Helicopter World, was murdered in the Carrera Hotel in Santiago in March 1990 while covering an airshow.

British intarest in Mr Moyle's fate was revived following the collapse of the Matrix Churchill trial, where it was shown that UK government ministers sanctioned the sale of military technology to Iraq via a Chilean middle-man, Mr Carlos Cardoen.

Attempts to link Mr Cardoen to Moyle's assassination collapsed last week during an identification parade in which a Carrera Hotel chambermaid failed to recognise a Cardoen employee she thought she had seen talking to Mr Moyle on the eve of his death. Mr Cardoen has always denied any link to the murder.

Mr Hurd's two-day visit to Chile is also expected to be taken up with trade and investment talks, and the impact of the European Community single market on Chilean exports. Tbe UK is Chile's biggest export market in Europe, with sales of some £200m last year, against imports of some £110m.

British multinationals also have a strong presence in the Chilean mining, cement, tobacco and food industries, with £2bn of investments, but British diplomats in Santiago believe UK exporters are not taking full advantage of Chile's booming economy, which grew 9.7 per cent last year.

Mr Hurd's five-day visit to Argentina was described by both sides as a success, even though they made no progress over the Falklands, the only issue that divides them.

Mr Hurd said his trip proved "that it is possible to come to Argentina and not be bombarded all the time by the sovereignty dispnte". British officials were pleasantly surprised that demonstrators did not meet them on their arrival in Buenos Aires on Wednesday.

One of Argentina's top Falkland negotiators said Mr Hurd's visit, the first by a cabinet minister since the 1982 Falklands conflict, meant "we are on our way to a broader, richer relationship in which the islands are only a part of the relationship, not the only issne".

Sihanouk climbs down

PRINCE Norodom Sihanouk of Cambodia is to co-operate with the UN peacekeeping mission in Phnom Penh, less than a week after announcing he was unable to work with the organisation as it had not stopped political violence, writes Victor Mallet in Bangkok.

In a weekend statement, Prince Sihanouk also said he had called a meeting of Cambodia's Supreme National Council – which includes the four main political factions – at his residence in Beijing on January 28.

His climbdown followed two hours of talks in Beijing on Friday with Mr Yasushi Akashi, head of the UN transitional authority in Cambodia.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	UNITED STATES					JAPAN				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	102.9	100.0	100.0	2.6	100.0	96.8
1986	105.7	101.0	6.9	98.0	106.1	105.5	99.7	2.8	94.3	105.5
1987	108.3	105.8	6.1	105.5	109.9	113.8	103.1	2.8	108.3	115.5
1988	112.3	111.8	5.4	108.1	114.3	122.8	112.6	2.5	135.8	122.9
1989	115.1	114.3	5.2	99.3	113.1	132.8	119.9	2.2	147.0	126.5
1990	115.4	115.7	5.4	84.5	109.1	142.0	125.3	2.1	149.7	124.6
1991	113.4	113.5	6.8	62.0	114.7	145.0	128.1	2.1	144.1	123.8
4th qtr.1991	−0.5	−0.5	6.8	58.7	114.7	1.9	−1.6	2.1	140.3	123.6
1st qtr.1992	3.3	1.3	7.1	58.9	116.6	−0.8	−4.8	2.0	132.6	123.4
2nd qtr.1992	1.6	2.0	7.4	60.5	116.2	−3.5	−8.2	2.1	126.6	122.6
3rd qtr.1992	3.1	0.6	7.5	60.1	117.2		−6.1	2.2		124.3
December 1991	0.5	0.2	7.0	58.6	114.7	0.0	−1.8	2.1	138.3	123.6
January 1992	5.0	0.0	7.0	56.3	115.8	−0.2	−3.8	2.1	136.1	123.5
February	3.6	1.4	7.2	59.0	118.5	2.4	−4.6	2.0	132.5	123.5
March	1.2	2.5	7.2	61.5	116.6	−4.5	−5.6	2.0	130.2	123.4
April	2.0	2.5	7.1	58.4	116.5	−2.6	−6.0	2.0	130.6	123.2
May	1.7	2.4	7.4	61.3	116.4	−1.0	−6.6	2.1	122.0	123.1
June	1.8	1.1	7.7	60.7	116.2	−8.5	−3.6	2.1	127.7	122.9
July	2.5	1.2	7.6	59.8	116.4	−1.0	−6.1	2.2	122.5	122.7
August	3.3	1.0	7.5	61.2	118.8		−8.1	2.2	116.1	122.8
September	3.4	0.4	7.4	59.3	117.2		−4.1	2.2		124.3
October	4.1	0.8	7.3	60.6	116.0		−6.0	2.3		
November		1.5	7.1	61.7			−6.0			

	GERMANY					FRANCE				
	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	105.0	100.0	100.0	10.2	100.0	102.4
1986	103.4	102.2	6.4	136.4	104.8	102.4	101.1	10.4	107.2	108.0
1987	107.4	102.5	6.2	148.4	105.9	104.5	103.1	10.5	117.8	108.3
1988	110.5	106.2	8.2	164.7	112.0	107.6	107.3	10.0	134.6	114.2
1989	114.1	111.4	5.6	216.8	114.8	109.8	111.3	9.4	161.1	113.7
1990	123.5	117.2	4.9	261.0	115.5	110.1	112.9	9.0	168.0	105.4
1991	130.4	120.6	4.3	270.8	112.6	108.7	113.2	9.6	129.8	107.3
4th qtr.1991	1.1	0.1	4.3	264.7	112.6	0.2	1.4	10.0	124.7	107.3
1st qtr.1992	−2.8	1.3	4.3	278.5	112.5	−1.2	1.0	10.1	116.0	108.4
2nd qtr.1992	−4.2	−1.3	4.5	272.5	111.2	0.2	0.2	10.3	107.7	107.7
3rd qtr.1992	−2.0	−1.6	4.7	261.1	109.0	−0.2	−0.8	10.3	112.1	106.0
December 1991	0.6	−2.1	4.3	265.6	112.8	−1.5	2.8	10.0	123.3	107.3
January 1992	−1.3	0.2	4.3	271.6	112.5	0.2	0.1	10.1	122.4	107.7
February	−2.1	3.4	4.3	279.7	112.8	3.3	0.4	10.2	116.5	108.3
March	−4.9	0.2	4.4	278.1	112.5	−5.6	2.7	10.1	117.6	108.4
April	−2.4	−0.2	4.5	275.7	112.1	2.6	1.2	10.3	104.6	108.2
May	−4.1	0.3	4.5	271.7	111.7	−0.0	−0.5	10.3	102.7	106.0
June	−8.1	−3.8	4.8	269.2	111.2	−1.3	−0.1	10.3	115.8	107.7
July	−4.2	−2.5	4.6	266.8	110.6	−3.5	−1.1	10.3	115.0	107.3
August	−1.5	−0.6	4.7	262.7	110.1	0.5	−1.1	10.2	113.3	106.9
September	−0.1	−1.4	4.7	253.0	108.0	2.6	0.0	10.3	108.1	106.0
October	−2.2	−3.6	4.9	240.6	106.0	−0.4	0.2	10.4	105.6	105.4
November		−5.1		229.5						105.3

	ITALY				UNITED KINGDOM					
	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	
1985	100.0	100.0	9.8	104.1	100.0	100.0	11.2	100.0	101.9	1985
1986	108.0	104.1	10.5	110.6	105.2	102.4	11.2	116.1	105.2	1986
1987	113.9	106.6	10.6	113.0	110.7	105.7	10.3	141.2	109.3	1987
1988	109.8	114.2	10.6	117.8	117.7	109.5	8.8	144.3	107.5	1988
1989	116.4	118.7	10.9	116.0	119.8	109.6	7.1	124.7	105.3	1989
1990	115.0	118.0	10.3	112.3	120.4	109.3	6.8	98.1	103.1	1990
1991	114.3	115.4	9.8	115.2	119.5	106.1	8.7	68.7	107.2	1991
4th qtr.1991	8.3	−0.7	9.9	115.2	0.4	−0.8	9.3	67.4	107.2	4th qtr.1991
1st qtr.1992		−0.3	9.6	114.6	−0.4	−1.3	9.5	70.9	107.8	1st qtr.1992
2nd qtr.1992		−0.3	9.9	112.8	1.2	−0.3	9.7	68.7	111.0	2nd qtr.1992
3rd qtr.1992		−1.1	6.9	110.7	0.8	−0.5	10.1	63.8	110.2	3rd qtr.1992
December 1991	5.0	−3.2	n.a.	115.2	−0.4	−0.3	9.4	72.9	107.2	1991 December
January 1992		−1.4	n.a.	115.0	0.8	−1.2	9.5	70.5	106.7	1992 January
February		0.3	n.a.	114.6	1.3	−0.6	6.6	71.0	107.0	February
March		0.3	n.a.	114.6	−3.2	−1.6	9.5	71.1	107.6	March
April		0.5	n.a.	114.6	1.1	1.3	6.6	70.2	109.1	April
May		1.1	n.a.	114.0	1.6	0.2	6.7	66.7	110.3	May
June		−2.8	n.a.	112.8	0.5	−2.5	9.7	67.1	111.0	June
July		0.2	n.a.	111.8	−0.3	−1.5	6.9	67.1	108.9	July
August		−0.3	n.a.	110.6	1.3	0.0	10.1	64.6	109.3	August
September		−3.1	n.a.	110.7	1.5	−0.1	10.2	59.7	110.2	September
October		−1.4	n.a.	110.6	1.6	0.5	10.2	58.5	111.6	October
November			n.a.		0.7			60.1		November

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. **Retail sales volume:** data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). **Industrial production:** data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). **Unemployment rate:** OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. **Vacancy rate indicator:** relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. **Composite leading indicator:** OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

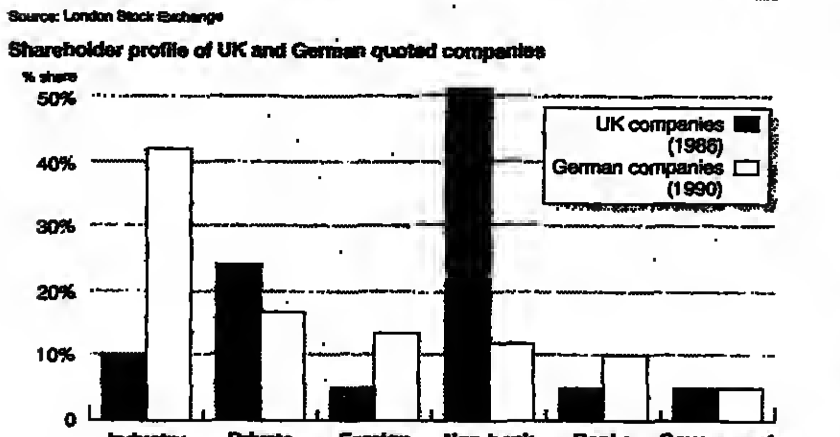
Whose hands are on the corporate tiller ?

Total number of quoted companies, end 1991

France	Germany	Japan	UK	US
551	665	1,641	1,915	6,409

Source: London Stock Exchange

Shareholder profile of UK and German quoted companies



Source: Franks & Mayer (1992)

Speculative effects of Anglo-American capitalism

AN EMERGING US recovery, alongside deepening difficulties in Germany and Japan, does not make this a particularly good time to trumpet the merits of German or Japanese-style co-operative capitalism over the more deal-hungry Anglo-Saxon variant. But the relatively dismal performances of the US and UK economies over the last decade should prevent policymakers in these countries from feeling smug simply because business cycles are currently out of line.

The commonly cited criticism of Anglo-Saxon economic practices is financial short-termism. US and UK companies, the conventional wisdom goes, are hampered by banks who have no stake in their long-term success and will not lend other than for short-term projects. But differences in financial practices tend to reflect deeper variations in the structure of corporate ownership and control across countries, according to Mr Colin Mayer, now at Warwick University, and Mr Julian Franks of the London Business School.

Franks and Mayer describe two models of corporate governance. In the *outsider* system the takeover threat is the main discipline on incumbent managers. The *insider* system relies, instead, on internal, committee-style supervision of management decisions. The outsider system is characterised by a large number of listed companies, whose shares are frequently traded in a liquid stock market and in which there are few intercorporate equity holdings. The insider system, by contrast, has fewer companies which are vulnerable to takeovers, and a web of cross-shareholdings, so that incumbent managers tend to have considerable discretion.

Japan, Germany and France fit the insider model. Relative to the US and UK, they all have a strikingly small number of companies whose equity is publicly quoted and traded on the stock exchange and thus vulnerable to takeover. The UK had a little under three times as many quoted companies as Germany in 1991 and twice as many takeovers in the 1980s.

Within the listed companies, there is much greater concentration of ownership in the insider economies. Of Germany's listed companies, 85 per cent had a single shareholder who controlled more than 25 per cent of the stock in 1990 compared with only 16 per cent of the top 200 listed UK companies. Of these same UK companies, 77 per cent had a largest shareholder with no more than 10 per cent of the total equity.

Company shareholder profiles in the insider economies are also markedly different from the Anglo-Saxon economies, as the chart illustrates. German companies held 42 per cent of the total equity of quoted Germany companies in 1990, while banks accounted for a relatively modest 6 per cent. In the UK, companies held only 10 per cent of total equity while the majority of shares were held by non-bank financial institutions and private individuals.

The Anglo-American outsider system, Franks and Mayer argue rather charitably, is best suited to corporate activities which involve subjective assessments of future prospects and in which takeovers are motivated by disagreements over corporate strategy. True, studies tend to find little or no relationship between past company performance and hostile takeovers. But nearly 80 per cent of executive directors either resign or are dismissed within two years of a successful hostile bid.

The continental insider system, by contrast, may be better suited to activities in which there is a direct need to control quality of product, management and employees. Performance tends to be monitored by a committee or supervisory board, including workers, bankers and experts from related companies who have a direct stake in the company's future. So while Anglo-American companies dominate speculative fields such as oil exploration, biotechnology and pharmaceuticals, in manufacturing it is Japanese and Germany companies that still lead the world.

Edward Balls

Corporate Control: a Synthesis of the International Evidence, November 1992. London Business School, Sussex Place, Regent's Park, London NW1 4SA.

Unrest forces Rao to miss Asian summit

By Shiraz Sidhva in New Delhi

MR P.V. Narasimha Rao, the Indian prime minister, cancelled a visit to Bangladesh as Bombay and parts of Gujarat state in western India continued to burn for the sixth consecutive day yesterday.

Mr Rao was due to attend a meeting of the South Asian Association for Regional Co-operation scheduled for Thursday and Friday. The summit was postponed indefinitely after India made clear at the weekend that the "atmosphere was not conducive" to bolding the conference.

Bombay has been tense since last month's nationwide riots, triggered by the razing of a mosque in Ayodhya, northern India, hy supporters of the radical Hindu Bharatiya Janata party. More than 1,200 people died in the ensuing violence.

Political sourcea said the new flare-ups appeared to have been fanned by Hindu political groups trying to push Mr Rao into an early general election.

The latest phase of violence between Hindus and Moslems has claimed at least 168 lives. Bombay, India's business capital, came to a atandstill as 80 more people died yesterday. Arson and looting continued unabated in several parts of the city, despite the deployment of the srmy.

Police patrols, which had been accused of siding with the Hindu community during the violence that swept the city in December, were shot at and bad acid, petrol bombs and stones thrown at them.

In Ahmadabad and Baroda in Gujarat, more than 30 people were killed and 150 left homeless at the weekend before the authorities restored order.

● Six leaders of the BJP, including Mr Lal Krishan Advani and Mr Murli Manohar Joahi, are expected to be released unconditionally today, under orders from the Uttar Pradesh chief judicial magistrate. The men were arrested for inciting communal violence by encouraging the destruction of the Ayodhya mosque.

A Somali youth detained for attempting to steal food from the port complex in the capital, Mogadishu, cries with pain as a US Marine unties his hands

Testing times ahead for Kenyan arbiters

Michael Holman on doubts over Commonwealth observer group's judgment in poll

IT IS not only the Kenyan government that will come under close scrutiny following disclosures about the country's electoral commission.

Also under the spotlight will be the Commonwealth observers sent tn monitor Kenya's first multi-party elections in 26 years. The 38-member group charged with assessing whether the poll was "free and fair" now faces searching questions about judgment and performance.

The scrutiny is prompted by the disclosure of a confidential file which casts dnubt on the suitability of Mr Zachaeus Chesoni as the chnice to head Kenya's electoral commission.

The Commonwealth group chose not to make public its anxieties about the key post, while the preliminary report on the poll alsn makes clear their unease about other aspects of the election.

The observers' concerns included the conduct of the registration process in many parts of the country; the nomination process, which saw 16 ruling party MPs unopposed; the intimidation, administrative obstacles and violence that marked the political campaign; the partisanship of state-owned radio and television; the reluctance of the government to separate itself from the ruling Kanu party; snd the "lack of transparency" on the part of the electoral commission.

Failure to express a specific concern about Mr Chesoni has puzzled opposition politicians who have been campaigning for his dismissal.

Mr Paul Muite, a lawyer and senior official in tbe FORD Kenya party, wrote in the July 13 issue of Society, a Nairobi weekly, that Mr Chesoni was "totally unsuited" to the post.

"He has been twice removed from his position as a judge in the court of appeal and the High Court", for reasons that Mr Muite said had yet to be officially disclosed.

Mr Muite also noted that "before [Mr Chesoni's] appointment as the chairman of the electnral commission, there was a bankruptcy petition against him pending before the High Court."

It was alleged, the article continued, that Mr Chesoni "owed close to K£30m [£520,000] to the Kenya Commercial Bank". Mr Muite asked whether the money was still unpaid and, if paid, how?

Opposition leaders were not surprised that calls for Mr Chesoni to he replaced wers ignored by the government. "But what astonished us was that we got no backing from the Commonwealth secretariat or western governments," said Mr Muite yesterday."I have no doubt that Commonwealth officials were able to confirm nur information with the British and US diplomats."

Spokesmen at the two missions said they were aware of the allegations but did not have proof.

As the election process got under way, the electoral commission came under increasing criticism.

Some of the most scathing comments came from Mr Hilary Ng'weno, editor of the Nairobi-based Weekly Review. "According to the Commonwealth election observer team," Mr Ng'weno wrote in an editorial on November 20, "a lot of work has already been done by tbe commission in preparation for the elections. But yon would not know it. The commission seems incapable of, or unwilling, to tell the public what is going on.

"It holds every bit of information as if it is secret information. It won't let opposition leaders view ballot boxes. Only after pressure does it release the names of people it has appointed as presiding officers. This is not as it should be."

Widespread complaints prompted a Commonwealth intervention in mid-November. But calls for Mr Chesoni's removal were resisted.

When Justice Telford Georges, leader of the Commonwealth group, was presented with the "Chesoni dossier" he was outraged by what he read, according to Commonwealth officials.

But be gave little public hint of it; nnr did the remaining 37 observers, all of wbom were aware nf the file and its contents, according to Commonwealth officials.

At the heart of the problem, say some critics, was the Commonwealth group's uncertainty about its mandate as monitor, which in turn led to some confusion about its responsibilities.

Its terms nf reference oblige it only to say whether the poll was "free and fair". The Commonwealth's nwn catalogue of "irregularities" make No the only answer.

But as one observer put it, the unwritten question that weighed heavily thrnughnut the exercise was; "What is in the best interests of Keoya?" The answer, the observer implied, could override strict application of the "free and fair" yardstick.

The questinn may well have dominated consideration of Mr Chesoni's file. An answer may come when the group's 100-page assessmeot nf the conduct of the election process is published later this week.

It is too late for the observers to change their minds – but the report may show the results of a post mortem on the Kenyan experience which could fundamentally affect the Commonwealth's definition of its monitoring role in the future.

NEWS IN BRIEF

Israel agrees to let nine deportees back

A SECOND United Nations envoy yesterday met Mr Yitzhak Rabin, the Israeli prime minister, in an attempt to resolve the fate of 413 Palestinian deportees stranded between Israel and Lebanon, writes Judy Maltz in Jerusalem.

Israel, showing the first signs of bowing to world pressure to let the expelled men return, agreed over the weekend to allow nine Palestinians deported by mistake to return to Israel on UN helicopters, accompanied by officials of the Red Cross.

But the move was blocked by Lebanese prime minister Rafik al-Hariri, who said he would allow the deportees to leave only through Israel's self-declared security zone in southern Lebanon.

S African right to join talks

South Africa's political parties took a step at the weekend toward resuming multi-party negotiations on a post-apartheid constitution when right-wing groups agreed to participate in planning a new multi-party forum, Patti Waldmeir reports. The white supremacist Conservative party, the mainly Zuln Inkatha Freedom party and two black homeland governments pledged to start planning a new forum, which could meet as early as March.

Chinese 'smugglers' caught

Singapore authorities have detained a ship believed to be part of a well-organised scheme to smuggle hundreds of people from China into the US, writes Kieran Cooke. Police say more than 100 China nationals were found on board.

Marines kill Somali gunmen

US Marines yesterday killed three Somali gunmen and wounded a fourth in a gunfight in Mogadishu, Reuter reports from Mogadishu. US-led forces have killed at least 11 Somalis since a relief effort began on December 9.

Kurd aid worker shot dead

The killing of an aid worker in Turkey has dealt another blow to relief efforts to ferry supplies to Iraqi Kurds, writes John Murray Brown in Ankara. Mr Douglas Cameron, of Care Australia, was shot by unidentified gunmen as his vehicle was taking supplies to villages near Suleymania.

Minister quits over air crash

MR Madhavrao Scindia, India's minister for civil aviation and tourism, resigned on Saturday, honrs after an Uzbekistan Airways aircraft leased to Indian Airlines crashed at New Delhi airport, Shiraz Sidhva writes.

The Russian pilot, who was told not to land in the dense early morning fog, apparently did not understand the command in English. The 165 passengers aboard the Russian TU-154 aircraft crawled to safety.

The aircraft was one of seven TU-154s leased by Indian Airlines, the government-owned domestic carrier, after pilots went on strike on December 10.

Mr Scindia said he was taking moral responsibility for the crash, as he had not been able to resolve the strike for more than a month. This compelled "Indian Airlines to lease the Russian aircraft due to the unfortunate attitude of the pilots".

Mr Ghulam Nabi Azad, minister for parliamentary affairs, will take temporary charge of the civil aviation and tourism ministries. Mr Scindia, who belongs to the royal family of Gwalior, bad distinguished himself as railways minister in Mr Rajiv Gandhi's cabinet, and had held his current office since June 1991.

Angolan rivals still battling for Huambo

ANGOLAN army troops and rebels are still fighting for control of Huambo, despite an announcement by the government that Unita leader Jonas Savimbi's stronghold had been captured and hs had fled, Renter reports from Luanda.

The state daily newspaper, Jornal de Angola, reported yesterday that Unita forces still controlled residential areas of the city, where most of its leaders lived. Unita's radio station said the group's entire leadership was still in Huambo, a provincial capital 500km southeast of Luanda. "Government forces are still under fire and have sustained heavy human and material losses," it said.

An army communiqué late on Saturday said government troops had captured Mr Savimbi's headquarters, a villa near Huambo airport, and his supporters were fleeing.

There was no independent word on Mr Savimbi's whereabouts.

NEWS: UK

Utility regulators are unfair says think-tank

By John Willman and Kenneth Gooding

INVESTORS IN Britain's privatised utilities are being treated unfairly by regulators who take unpredictable decisions and operate in excessive secrecy, according to a report published today from the European Policy Forum, the free market think-tank.

The EPF was launched six months ago with the public support of Mr John Major, prime minister, and is headed by Mr Graham Mather, former director of the Institute of Economic Affairs.

The report says utility regulators rely excessively on the personal styles of their heads, whose discretionary power makes them prey to short-term political interference, especially in the energy market. It recommends merging many of the regulators into fewer bodies with reduced powers to amend utility licences.

It says regulators' decisions are often shrouded in secrecy – most do not hold public hearings – and there is also too little consultation by the regulators. Appeal systems are also inadequate.

The report is likely to fuel controversy over the role and performance of the utility regulators, not least among the companies they regulate.

Mr Cedric Brown, chief executive of British Gas, which has been involved in a protracted and acrimonious struggle with Ofgas, its regulator, yesterday welcomed the study.

"Obviously, we need a regulatory framework but one that is fair, more accountable and responsible," he said. "This will ensure the balance of interests of all concerned. What regulation needs is a code of behaviour consistent with the Cadbury report on good corporate governance." The Cadbury report was published last May.

But Sir James McKinnon, director-general of Ofgas, said the EPF appeared to be under a serious misapprehension about the power of the regulators. "To suggest regulators act at their own discretion flies in the face of the fact that there is law covering these matters. Regulators take their steps by following the law."

He implied it would be wrong to merge Ofgas and Offer, the electricity regulator. "Gas and electricity are competitors and the industries have entirely different dynamics." The EPF, he said, seemed to want to tip the present balance between customer and shareholder interests in favour of shareholders.

The report recommends merging regulatory bodies and reducing their powers to amend utility licences:

● Ofgas and Offer should be combined into a single Office of Energy Regulation.

● An Office of Communications should replace Oftel, the Independent Television Commission, the Radio Authority and the Broadcasting Standards Council.

● The proposed rail regulators and the regulatory arm of the Civil Aviation Authority should merged into an Office of Transport.

Parliamentary scrutiny should be strengthened by a new select committee for the regulated industries to which regulators would report annually. The Monopolies and Mergers Commission should act as a court of appeal against regulators' decisions.

Other recommendations include a regulatory charter to set out principles of regulation, based around a principle of regulatory stability.

Press chief rejects proposals for tougher controls

By Raymond Snoddy

THE chairman of the Press Complaints Commission yesterday launched a fierce attack on the author of a government report on regulation of the press, accusing him of bias and of proposing censorship that would emasculate British journalism.

Lord McGregor of Durris made his criticisms following reports that Sir David Calcutt QC, who was asked by the government to investigate how well press self-regulation had worked in the past two years, had recommended tough new controls.

The controls are said to include substantial fines for newspapers which breach a statutory code of practice, a press complaints tribunal chaired by a judge and new criminal offence of physical trespass and electronic eavesdropping.

Sir David's report was delivered to Mr Peter Brooke, National Heritage Secretary, on Friday. Neither Mr Brooke nor senior officials from his department would comment yesterday.

Lord McGregor said the report's proposals could emasculate the British press and accused Sir David of "failing to give a proper judicious assessment of the evidence submitted to him".

The PCC chairman said the proposals would mean using the power of government to intervene directly in the press. "I view it as embarking for the first time in 300 years on direct censorship," he said.

The growing alarm in the newspaper industry at what Sir David has recommended seems to be based on sight of a part of the report which deals with the work of the PCC, the body that replaced the Press Council.

This account is critical and negative. The PCC in its evidence told Sir David it believed self-regulation of the press was working well.

The reported recommendations for action are identical to those suggested by Sir David Calcutt in his 1990 report for implementation should self-regulation be seen to fail. Sir David was asked last June to carry out a six-month investigation on how self-regulation was working.

During that period there was a succession of rows over alleged press intrusion into the private lives of members of the royal family and government ministers.

Lord McGregor emphasised yesterday that in a long period of one-party government it was particularly important that the only effective opposition – the press – should not be weakened.

Mr Clive Soley, the Labour MP whose private member's bill on the press receives its second reading at the end of this month, said he thought the reported proposals were excessive and would impede good investigative journalism.

The government plans to publish the Calcutt report later this month.

Its attitude to press controls is expected to become clearer during the second reading of Mr Soley's right of reply bill on January 29.

Initial political reaction yesterday suggested that the Calcutt recommendations are seen as extreme, although there is growing support for some action to be taken against the more extreme forms of press intrusion. Action to prevent bugging of private telephone calls is most likely.

CONTROVERSIES IN 1992

● February: Liberal Democrat leader Paddy Ashdown's affair with former secretary revealed after report in The Scotsman of injunction against press.

● June: Serialisation of Andrew Morton's book on Princess Diana in The Sunday Times. Following subsequent coverage, Press Complaints Commission condemns journalists for "dabbling their fingers in the stuff of other people's souls".

● July: The Independent reveals health secretary Mrs Virginia Bottomley had an illegitimate child 25 years ago. John Major said to be very angry at story. The People publishes story about heritage secretary David Mellor and an actress based on recorded phone calls.

● August: Daily Mirror publishes topless pictures of Duchess of York with her Texan "financial adviser" John Bryant and The Sun publishes "Squidgy" tapes recorded by a retired bank manager, apparently of Princess Diana.

● November: Details of chancellor Norman Lamont's Access credit card account published by The Sun.

Consumer levy suggested to subsidise British coal

By Ivo Dawnay, Political Correspondent

ENERGY civil servants are completing a list of options to resolve the damaging public row over UK pit closures amid speculation that the government might add a levy to consumer's electricity bills to pay for a coal subsidy.

The levy suggestion has been welcomed by some senior ministers as a way of keeping at least some of the 31 threatened pits open while bringing home to the public the accuracy of the government's claim last autumn that the mines were uneconomic.

Figures understood to have been discussed suggest that a time-limited subsidy of between £5 and £10 a tonne might be necessary to keep the pits viable while they increase their productivity to meet a target price of £36 a tonne.

A levy would be aimed at meeting the estimated £700m cost of providing a £10-per-tonne subsidy in a way that would not directly fall on the already hard-pressed exchequer. A precedent already exists in the current nuclear levy, already imposed on electricity bills.

Three draft reports by Boyd's, the Pittsburg mining engineers, Caminus Energy, consultants, and Ernst and Young, the accountants are nearing completion.

They will give ministers an objective analysis of the viability of the threatened pits, the general market outlook and the relative competitiveness of British Coal.

Mr Michael Heseltine, trade and industry secretary, is also awaiting the report of the Commons industry select committee, before tabling a white paper outlining the government's proposals for the industry.

The paper is expected to be presented to the Commons by the end of this month or early in February.

US attorney on trial over Guinness affair

By John Mason, Law Courts Correspondent

THE criminal proceedings arising from the Guinness affair enter their last lap today with the start of the trial of Mr Thomas Ward, the US attorney who advised the company during the 1986 takeover battle for Distillers.

Mr Ward faces three charges related to the fee paid to him by Guinness for his services. He is accused of the theft of £5.2m, false accounting concerning the fee and procuring the execution of a valuable security by deception.

Mr Ward denies all the charges.

The trial will take place at the Old Bailey and is expected to last three months. Mr Ward was arrested in June 1991 after returning voluntarily to the UK following the commencement of extradition proceedings by the British authorities in 1989.

His trial is the third to take place over the Guinness affair.

After the first trial, Mr Ernest Saunders, the former Guinness chairman, Mr Gerald Ronson, the Heron group chairman, Mr Anthony Parnes, a City stockbroker, and Sir Jack Lyons, the financier, were convicted between them on 28 charges of conspiracy, theft and false accounting.

The second trial collapsed after the deterioration of the mental health of one of the defendants, Mr Roger Seelig, the former Morgan Grenfell corporate financier, while conducting his own defence. A *nolle prosequi*, a decision not to prosecute, was entered against him.

The charges against his co-defendant, Lord Spens, were initially left to lie on the file but he was finally acquitted last November.

Mr David Mayhew, a partner with brokers Cazenove, was due to appear alongside Mr Seelig in a third trial, but charges against him were dropped before the case came to court.

Britain in brief

Fall in UK acquisitions in Europe

The number of British corporate acquisitions in Europe fell last year, despite the impending launch of the single European market, according to a survey released today by Translink, the cross-border mergers and acquisitions adviser.

Preliminary findings show that only 159 deals were completed in Europe by British companies last year. The number has declined steadily from 284 in 1989, to 247 in 1990, and 175 in 1991.

Acquisitions of British companies by European buyers were also down to 200; from 239 in 1989, 279 in 1990, and 232 in 1991. Companies blamed the uncertain economic outlook and turmoil on foreign exchanges in the final quarter of last year for the fall in corporate activity. Among UK companies the most active cross-border acquirers – and targets for foreign companies – were in banking and financial services.

Tory caution on tax increases

Sir Norman Fowler, conservative party chairman, yesterday joined Mr John Major, prime minister, in cautioning against growing calls for the government to raise taxes to tackle its mounting deficit.

The Conservative party chairman appeared to side, In an ITV television interview, with the growing number of Tory MPs who have expressed disquiet at arguments by Lord Howe, former chancellor, that rises in taxes might be necessary and inevitable.

"The Conservative party is and remains the party of low taxation," he said. Last week, Mr Major also appeared to reject increases in tax or VAT rates in an BBC interview with Sir David Frost.

Sir Norman's comments came after the end of Mr Norman Lamont's traditional two-day brainstorming session at the Kent country house of Chevening where the chancellor met officials to discuss options for the coming budget.

Decline in new companies slows

Jordans, the business information company, says the number of new companies formed last year fell for the third year running but the rate of decline was lower than in either 1990 or 1991. The decline in company formations slowed in the second half of 1992, suggesting the recession may be easing. Company registrations (excluding Northern Ireland) reached 107,375 last year, down 2.5 per cent on 1991.

John Prideaux

Sir John Prideaux, chairman of National Westminster Bank during Britain's secondary banking crisis, has died aged 81. In 1974, when rumours regarding the solvency of the bank were circulating widely in the City, Sir John took the unusual step of issuing a statement denying the bank faced any solvency crisis.

هكذا من الأصل

Christopher Lorenz explains why Berghaus is revamping its distribution for the second time

Ain't no mountain high enough

Rethinking Europe

AS BEFITS an enterprise run by all-weather mountaineers, rock climbers and hill trekkers, Berghaus has always been s pioneer. Its innovative technical design and marketing bave made the 450-person compsny one of Europe's leading and most fashionable makers of "performance" outdoor clothing, including rucksacks, jackets, trousers and gaiters.

Like so many of Germany's medium-sized companies – the "*Mittelstand*" – Berghaus bas long enjoyed soaring sales and an export ratio of around 50 per cent.

As from last week, the company is preparing to plooeer in a new direction: by revolutionising its relationship with retailers in continental European markets. Its move is likely to affect all its competitors.

Berghaus is also rethinking a distribution system it set up in Italy and Germany as recently as 1987-88. That, in turn, results from a newly-implemented two-year revamp of its manufacturing process, which has been shifted from mass production to flexible sbort runs.

Berghaus is not German, Swiss or Austrian, as its name suggests. It is thoroughly British, or to be more specific, steeped in the gritty character of its home town of Newcastle upon Tyne in oorth-east England.

In tbe last 20 years it has built thriving export businesses to Italy, Germany, Norway, Sweden, Benelux and Switzerland (in approximate order of current sales volume). Only in France has it "utterly failed to crack the market so far", admits David Udberg, its joint managing director. He blames vicious domestic price competition and French chauvinism.

In tbe current financial year sales will top £30m for the first time, with pre-tax profit climbing towards the £750,000 peak of the late 1980s after two years of problems caused by the factory reorganisation and the UK recession.

When, four years ago, the Financial Times last looked at Berghaus's continantal European sales strategy, it had just introduced what was intended to be a faster and cheaper way of responding to orders from the 500 small family shops which constitute tha fragmented Italian market. And it was on the verge of extending the approach to Germany.

A vital back-up for both markets was to be a £300,000 German computer system in Newcastle, capable of reserving and allocating stock several months in advance.

With the exception of the German arrangements, little of this has turned out as planned. Almost all of it had to be rethought.

For a atart, ths computer software failed to function as promised. The result, from July 1989 to the end of that year, was five months with no management accounts or credit notes and two without invoices.

No sooner had that problem been resolved than the company was hit by the third mild winter in a row. Both Berghaus and its retailera were hurdened with stock.

The company's reaction was to pull out of skiwear – a strong seller in Italy – and accelerate a move towards more flexible garments with removable layers, which sell throught the year.

The immediate result was s drop in Berghaus's Italian sales by 15 per cent in 1990-91. This has been more than recouped, with this year's Italian revenue expected to be more than £2.5m, keeping Italy well out in front of Germany and fast-growing Norway (with £1.6m each) as Berghaus'a largest export market.

At the same time as the computer and tbe weather were wreaking havoc, Berghaus's Italian branch and warehouse ware having problems (see panel). To put no finer point on it, "we got our fingers hurned," says Mark Held, the 35-year-old export director.

Just as the Italian warehouse has been replaced by a direct distribution system, Berghaus may have to reconsider the role of the efficient but costly German distribution base it set up near Cologne in 1989.

Snch a review may be sparked by a more radical decision: Berghaus's attempt to steal a march on its continental competitors with a new rapid order and delivery system for continental Europe which will allow retailers to cut stocks drastically.

Until now, outdoor clothing retailers in continental Europe have mainly ordered atock and taken delivery in two frenetic seasons. This has meant retailers holding stock for up to six months.

In recent years British retailers have shied away from this pattern because of aoaring interest rates, unpredictably dry and hot weather and the effects of recession.

As a result, Berghaus this year launched a "stock response system" based on the sort of "direct sell-through" (or "just-in-time") supply relationship between makers of fast-moving consumer goods and their UK supermarket customers. This shifts most of the stockholding risk, and much of that for demand forecasting, on to suppliers.

Pioneering Berghaus plans to revolutionise relationships with retailers in Europe

As from this month Berghaus's main UK retail outlets can choose to hold an agreed range of goods and up to four weeks' of stock, in exchange for automatic replenishment from Berghaus once a month, with delivery within s week. in 1989, for both home and export markets, Berghaus's order-to-delivery cycle on many items was as long as aix-12 weeks.

Last week, as a precursor to introducing a full UK-style "stock response system" this autumn, the company relaxed its £1,500-2,000 minimum order levels for its main continental European retailers to a single garment.

Berghaus will thus no longer be able to rely on having a fat order book seven or eight months ahead. "Its n drastic change – the biggest since I joined the company nine years ago," says Held.

"We'll have to forecast better, manufacture speculatively, and take a risk on stock." The company's back-up stock is being raised by 30 per cent.

To its main export customers, Berghans is aiming to offer the same order-to-delivery response of seven days or less that it provides in the UK.

This will put on severe trial its planning, manufacturing, supply and distrihution arrangements. It will also test whether the theory of an efficiently operating single European market can become a reality during 1993.

A previous article in this series appeared on January 4

On the wrong track in Italy

IT WAS the sort of tragi-comedy which other Europeans tend to associate with Italy. In 1987 Berghaus decided that the fragmented Italian market required a domestic staging post to hold stock and turn round orders quickly.

They would be exported in bulk, then repacked in Italy for individual delivery. But the plan failed.

Berghaus had chosen what seemed an ideal location just south of the Swiss border. But a promised motorway to the town was never finished, lesving only twisting local roads. There were no computer links - a side-effect of its UK computer problems.

With a staff of five, "the warehouse became a very, very expensive addendum to onr Italian operations", says Mark Held, export director. To reach it, Berghaus had to have hulk consignments from Newcastle transferred on to smaller lorries nearby. From the warehouse, individual cartons destined for shops were put on to a third set of trucks.

In mid-1989 Berghaus decided to pull ont, and instead subcontract the physical distribution – and fixed overheads – to an Italian company which carries ont a similar service for Benetton, the clothing chain.

A patent case for looking after your company's rights

By Trevor Black

Innovators often fail to understand the management of intellectual property rights, a complex and arcane area involving patents, copyright, designs, trade secrets and trade and service marks that is normally the reserve of specialist practitioners. Yet coming to terms with such issues can be plvotal to successful corporate innovation.

An example is Company X, a newly-founded software firm. Just as its first product was about to be launched, the company received s letter from the solicitor of the former employer of one of the founding members, claiming that valuahle information belonging to their clients was being used in breach of a confidentiality agreement.

They also claimed that copyright-protected programs belonging to their clients were used in the development of the new company's products. Threats of injunctions and demands for damages and return of the copyright works were made.

It was also suggested from another source that as the company had spent much time and money on promotional literature, which included the name of the product, that they check thet this was not being used by anyone else. A search by a trade mark agent found that the name was similar to a name already registered for the same sort of products and that use of it would entitle the registered proprietor to sue for infringement of his mark.

The copyright and confidentiality issue was resolved hy the grant of a licence to use the information and copyright work. But the company had to select a new name and logo, which meant the original promotional literature had to be pulped.

The commercial ramifications were that the company could not claim to have exclusive rights over the finished prodnct, the product was late to market and much management time was wasted and legal fees expended.

Bnt a few precautions could have ensured that the intellectual property matters, crucial to the success of the product, were secured. Such measures include:

- Raising staff swareness of intellectual property rights through workshop training and the development of appropriate guides. These can range from a general introduction to IPRs to industry-specific ones. Or they can be aimed at specific personnel, such as scientists operating in sensitive research areas where technology leakage could have dire commercial repercussions. They can also be aubject-specific on, say, trade marks.
- Innovation and intellectual property audits. Innovation auditing should address "hard" technologies such as engineering capabilities as well as sales and distribution networks, marketing expertise and financial control.

Intellectual property auditing should focus on the underlying intangible legal rights which the business enjoys and might create in any product development.

With this data, management can develop mechanisms to trigger an automatic review of IP issues at all stages of business and product development.

Management controls include guides to inform managers how to protect IPRs when they arise. Other guidelines would establish the proper procedures for confidentiality agreements. Control mechanisms could prevent technology leakage by the unvetted disclosure of patentable materials from research departments. Staff responsible for licensing would follow safe practices in both the pre- and post-licensing function.

Finally, intellectual property legal protection insurance enables the insured company to sue those who threaten to infringe its rights and to defend itself if accused of infringing the rights of others. Good IP risk management policy is having in place the best control environment together with appropriate insurance.

IP problems can normally be predicted and prevented. Innovators should ensure that thay use the intellectual property system which is there to protect their interests, saving management time and potential legal and other fees.

The author heads Trevor Black & Associates, intellectual property management consultants.

CONSTRUCTION CONTRACTS

Developing power plant at Kent site

JOHN BROWN, a member of the engineering division of Trafalgar House, is to construct a 38MW gas turbine based heat and power (CHP) plant at Svenska Cellulosa's (SCA) Aylesford papermaking site in Kent.

The company was awarded the Aylesford contract by National Power who will own the plant and supply the electrical power and heat to meet SCA's current energy and process needs on site. The project is worth in excess of £20m.

John Brown will design, engineer, construct and commission the CHP plant on a full turnkey basis. Under s further contract, being finalised, John Brown will maintain the plant for a period of six years with an option of extending beyond that period.

Construction will begin early this year and the plant is scheduled to be completed by mid 1994.

£50m orders won by Donelon Tyson

DONELON TYSON has secured orders totalling £50m, which are evenly spread across the group's construction divisions.

J.F. Donelon & Co, the specialist tunnelling and civil engineering subsidiary, recently won £20m of new "water spend" orders including a £15.5m contract for the construction of a sewer in Cleethorpes.

Tyaons, the building and joinery manufacturing arm, has won orders totalling soms £30m including two contracts of £8.5m each to Tysons Construction for work on the Aintree Industrial Estate in Liverpool and Valley Road Business Park on the Wirral.

Hong Kong office scheme

GAMMON CONSTRUCTION, the Hong Kong-based company jointly owned hy Trafalgar House Construction and Jardine Matheson, has won contracts worth more than £129m in Hong Kong and Asia in the final four months of 1992.

The largest is an £88m contract for twin office towers on Tong Chong Street in Quarry Bay. Named the Dorset House development, one tower will be 43 storeys high and the other will be 40 storeys high. They will be joined together by a podium and four level basement area, while foothridges will link the development to the adjscent Cornwall and Somerset House where the company will carry out renovation work.

Other recently awarded work inclndes ground engineering contracts worth more than £30m in Hong Kong and the New Territories.

The largest of these is a £10m contract for driven piling for turbine buildings and caisson works for flue chimneys at the Lamma Power Station on Lamma Island.

A further £11m worth of huilding and project management contracts have been won. They include the project management of the Shsnghai World Plaza in China, the design and construction of a cargo handling facility for the Lok On Pai transhipment centre and a jetty extension for Caltex's Tsing Yi island.

Leicester western bypass plan

AMEC has started the New Year with a trio of contracts worth around £90m, all of which were given the "green light" in the run-up to Christmas.

Heading the list is the £36m A46 Leicester western bypass contract, which AMEC Civil Engineering won in joint venture with Alfred McAlpine. The 130-week contract, which started on site on January 4, covers construction of ahout 12.5km of dual lane carriageway located to the north and west of tha city from the M1 at Kirby Muxloe to the A46 Fosse Wsy at Syston.

Work includes the construction of a range of grade separated junctiona and over 50 structures. Crossings include the Rothley Brook at Thurcaston, the Grand Central Railway, the River Soar, the Grand Union Canal and the M1.

At the same time, AMEC Design and Management and Americnn siater company Morae Diesel International have been awarded a construction management contract to fit-out the new London headquarter's for Barclays Bank.

Located at 54 Lombard Street, in the heart of the City of London, the 17-storey 300,000 sq ft building will be fitted out under a phased contract, starting in May and ending in July next year.

In Bristol, AMEC Developments has been given the go-ahead on the £24m Severn Gate project, following approval of a £3.6m city grant by the Department of the Environment.

The project will provide 430,000 sq ft of industrial and distribution facilities on a 35 acre site.

The development is part of a 400 acre landholding owned by AMEC'a joint development partner, RTZ Estates and is situated adjacent to the proposed link from the M5 to the new Severn crossing.

Sewerage services in Buenos Aires

The Argentinian government has awarded the 30-year concession to run Buenos Aires' water supply and sewerage services to the AGUAS ARGENTINAS CONSORTIUM, led by Lyonnaise des Eaux-Dumez.

Strategy and documentation for this first water privatisation in South America were prepared by Obras Sanitarias De La Naciòn (OSN) assisted by a specialist team from UK consultant Halcrow.

Unsuccessful bids were made by UK-based consortia headed by Thames Water International Services Holdings and North Wast Water international, though the Aguas Argentinas group retains a UK interest through a five per cent Anglian Water stake.

The city's water supply services are to be upgraded and expanded. Extensive investment in civil engineering and electromechanical worka is expected.

Capital investmant will includa rahahilitation of two water treatment plants serving 2.5m people and 1m people respectively, potable water trunk mains and tunnels and rationalisation of the distribution network throughout the city.

Sewerage works will include the constructton of entirely new sewage treatment facilities to serve a population in excess of 8m, involving screening, primary and secondary treatment. There will also be an extensive upgrading of the sewerage network and new trunk sewers.

New passenger facilities

TEAM SERVICES, based at Enfield, has won two packages, one to upgrade Britisb Airways' Concorde, First Class, Executive Clnh, Club and Oasis lounges at Heathrow and the other for higher education student accommodation worth, in total, £13.25m.

The project at Heathrow is complicated by the need to keep two of the three floors involved fully operative at all times. At Bolton Institute of Higher Education Team is also arranging tbe funding for the design and build of an extra 318 bedstudy rooms (£3.35m) while nt the University of Abardeen the company is designing and building a further 389 individual spaces (£5.3m).

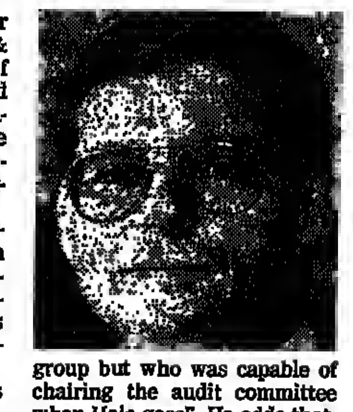
Both college projects are due for completion in time for next autumn's student intake.

PEOPLE

Sankey joins Pearson board . .

Vernon Sankey, who took over as chief executive of Reckitt & Colman at the beginning of last year, is joining the board of Pearson, owner of the Financial Times, and becomes the publishing, banking and industrial group's ninth and youngest non-executive director.

Joho Hale, who was managing director of Pearson between 1983 and 1986, is retiring at the next agm, when Sankey will also replace him as chairman of the audit committee.

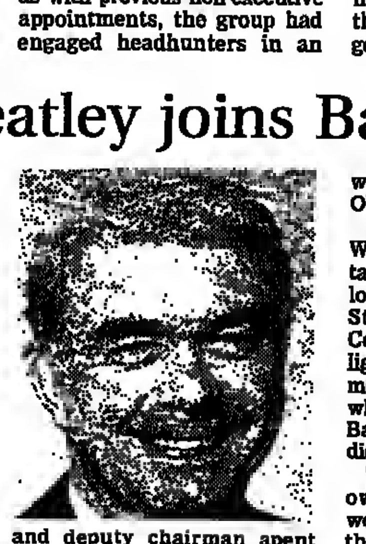


Lord Blakenham, Pearson's chairman and chief executive, says: "We felt we needed an experienced director who not only belonged in a younger age group but who was capable of chairing the audit committee when Hale goes". Ha adds that, as with previous non-executive appointments, the group had engaged headhunters in an extensive search, prescribing strong international experience as an important selection criterion.

Sankey, 43, joined Reckitt & Colman in 1971 from Oxford. Since 1989 he had been group director responsihle for the North American operations of the household products, toiletries and food company, before returning to the UK to succeed John St. Lawrence as chief executiva. Earlier in his career he had also worked in Denmark and France. He says it is his first, and will for the moment he his only, non-executive directorship. "Thase things take time if you are going to do them properly."

. . and Wheatley joins Babcock's

Engineering group Babcock International, which last summer said it wanted to achieve a better balance of expertise on its board, has invited Alan Wheatley to join as a non-executive director, in the first of two or more such appointments it intends to make in coming months.



Wheatley, 54, the new chairman of 3i and a former senior partner of Price Waterhouse, has known the chairman of Babcock, Lord King, for some while.

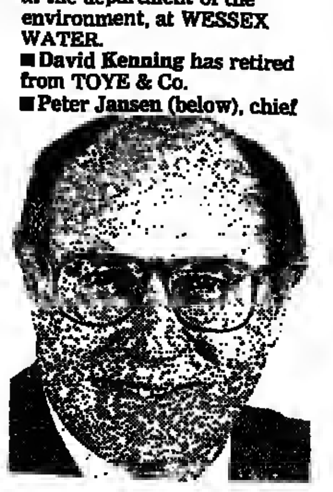
"But these things are done in a much more formalised way these days and the chairman and deputy chairman apent some considerable time considering the sort of person we wanted," says chief executive Oliver Whitehead.

Whitehead points out that Wheatley, with his City contacts, "fills an obvious gap" following the death of Rocky Stone, a formar Smith New Court director and a leading light in the Industrial & Commercial Finance Corporation, who had been on the board of Babcock since 1966 and who died last April.

The chief executive says his own "personal preference" would be for an industrialist as the next non-executive director, but that that search is not very far advanced.

Other non-executives

- **Jack Davis** at CANTORS having retired as md.
- **John Martyn**, group finance director of Dalgety, at LLOYDS ABBEY LIFE; Sir Norman Wakefield has retired.
- **Sir Derek Hornby**, chairman of the British Overseas Trade Board, at SEDGWICK GROUP; Hugh Collum and Rupert Hambro have retired.
- **Nigel Keen**, founder of the Cygnus group, at LAIRD GROUP.
- **Sandy Muir** has resigned from CATTLE'S (HOLDINGS).
- **Derek Cook**, former deputy chairman and group chief executive of Pilkington, at The LITTLEWOODS ORGANISATION.
- **Edmund Browne** at REDLAND.
- **Sir John Rogers** has retired from FIRST TECHNOLOGY.
- **Tony Vickers**, formerly sales director, at TV-AM.
- **Ken Minton**, chief executive of Laporte, as chairman of JEYES GROUP in succession to Michael Moseley.
- **Brian Jennings** has retired from EBC GROUP.
- **Sir Terence Heiser**, recently retired permanent secretary at the department of the environment, at WESSEX WATER.
- **David Kenning** has retired from TOYE & Co.
- **Peter Jansen** (below), chief executive of MB-Caradon, at BURMAH CASTROL.



- **Sir Norman Lessels** as chairman at HAVELOCK EUROPA on the retirement of Sir Lewis Robertson.
- **Rab Telfer**, former chairman of BSI Standards and of the petrochemicals division of ICI, at TEESSIDE HOLDINGS.
- **Alan Hayes**, chairman of the European Trade Committee of the DTI and recently retired chairman of ICI's agrochemicals and seeds business, at WHATMAN.
- **Peter Burnell** has resigned from WAVERLEY MINING FINANCE and from BUTTE MINING on his appointment as an executive director of Minorco (UK).
- **Keith Simpson** at STYLO.
- **Andrew Sim** has resigned from NORTHUMBRIAN FINE FOODS.
- **Anthony Glenton**, formerly vice-chairman, as chairman at NEWCASTLE BUILDING SOCIETY, on the retirement of Kenneth Hilton.

Insurance moves

- Following completion of the £33m management bny-out from Brown Shipley, HOLMWOODS Insurance Group, the specialist schools insurance broker, has announced two new appointments. David Godfray, 51, who has been with the group since 1960, has been sppointed managing director. Carl Openshaw, 54, s former executive director of the Guthrie Corporation, the trading and agribusiness group, takes over as finance and development director. Openshaw, like chairman Colin Ingleby-Mackenzie, is a keen cricketer, and has captained a highly successful Kent over – 50s side in recent years.

- **Tony Hart** (above left) is appointed md, **Maggie Belson** director of information, and **Eamon Bardon** accounts director at MERRETT MANAGEMENT SERVICES, part of Merrett Holdings.
- **Kent Urness** (above right) has been sppointed md of St Paul (UK) and will become ceo on April 5 when tha present chairman and ceo **Vartkis Boghos** continues solely as chairman until he retires a year later.
- **Rick May**, depnty chief executive of CLERICAL MEDICAL INTERNATIONAL, has been appointed a director of Coryo-CM Life Insurance Corporation, its joint venture with the republic of Korea. **John Ferguson**, formerly executive vice-president of Coryo-CM Life Insurance, has returned to the UK to become development and insurance marketing director of CMI.
- **Christopher McKnight** has been appointed a director of ATTWOOD & HART.
- **Richard Coleman** and **Steve Taylor** have been appointed directors of H CLARKSON AND COMPANY.
- **Terry Marris**, formerly administration director of Black Horse Financial Services, has been appointed operations director of HAMBRO GUARDIAN ASSURANCE.
- **Ted Constable**, a former md at Frizzell Life & Financial Planning, has been appointed a director of HOLMWOODS LIFE & PENSIONS.

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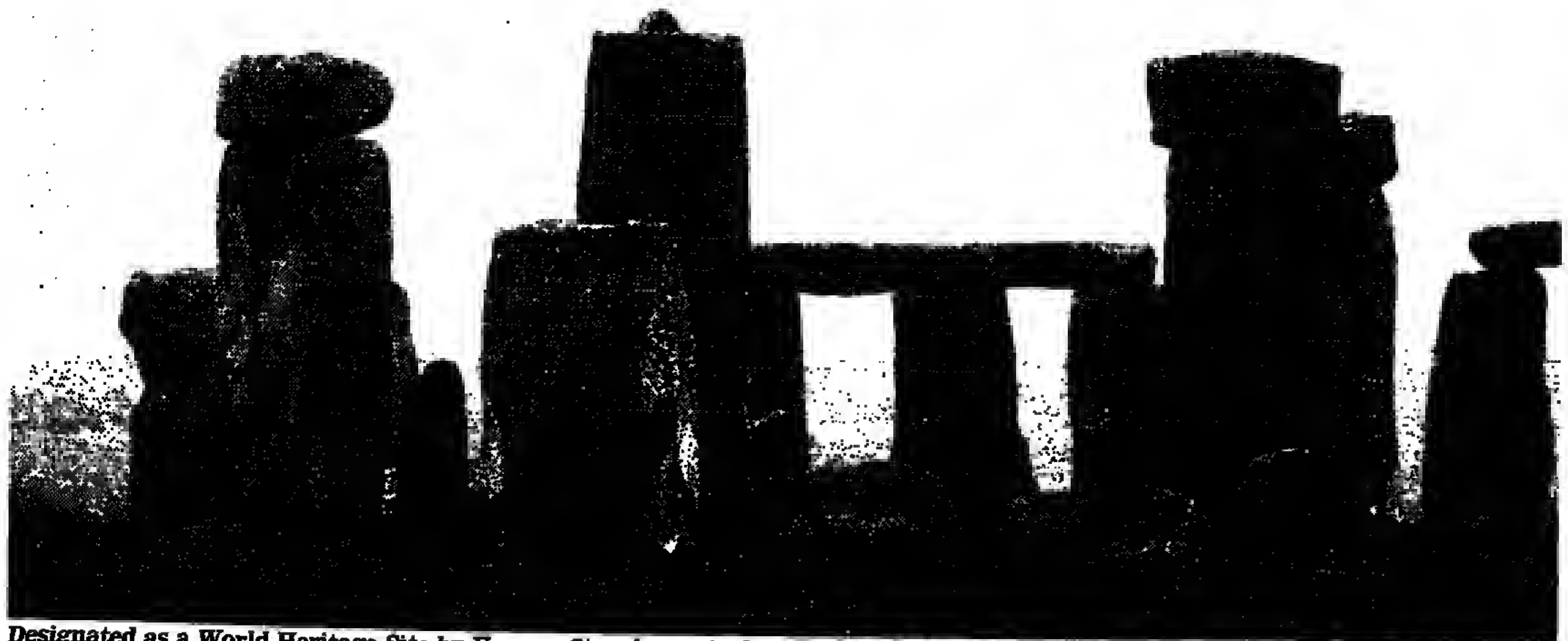


Designated as a World Heritage Site by Unesco, Stonehenge is described as the most important pre-historic monument in Europe

Let the stones speak for themselves

Colin Amery considers Stonehenge and the winning design to house the tourists

It was Inigo Jones who was asked by King James I of England and VI of Scotland to offer an account of the origins, meaning and purpose of Stonehenge. His thoughts and researches were not published until 1655, and when they were they were curiously inaccurate and speculative. Jones thought that the group of megalithic stones was a Roman temple in the Tuscan Order, open to the heavens, and dedicated to Coelus, or Uranus, the oldest god in the classical pantheon.

Like many architects Inigo Jones was not above re-interpreting history to his own ends. He was at the time an enthusiast for the severity of the Tuscan Order and the simplicity of Roman temple architecture. It suited him to see the monument as a reinforcement of his own historical ideas.

Today we look at a monument like Stonehenge in a variety of different ways. It is described as the most important pre-historic monument in Europe. It is designated as a World Heritage Site by Unesco. It is still the site of some strange solstice rites when white robed Druidic figures try to bring together the forces of time and space to manufacture a creative coincidence based on the certainties of geometry. It is a gathering place for Romanies and travellers drawn there as if by a giant magnet. Above all we still look upon Stonehenge as a place of mystery, a place that has a strange and powerful hold upon the imagination.

In London until January 16 at the Royal Institute of British Architects (and later in Wiltshire) is an exhibition of the ideas of six architects, called *Visions for Stonehenge*. Galvanised by the energetic new chairman of English Heritage, Mr Jocelyn Stevens, 150 architects submitted proposals for new facilities for visitors to the monument. The present arrangements for the one million or more people who visit the site annually are grotesque and inconvenient. The brief for the new proposals is for a centre one kilometre to the north of the stones for visitors, where they will also park their cars. From this distant site you will walk processionally to the stones, which will be once again more isolated and united with the landscape by the removal of much of the fencing and the A344 road, which at present passes within feet of the sacred stones.

The winning architect from the six short listed is Edward Cullinan – who also won the last *Financial Times* "Architecture at Work Award." The other five were: Jeremy Dixon and Edward Jones; *Birds Portchmouth* and Russum; Future Systems; Colvin and *Moggridge Landscape Architects;* and Plincke Leaman and Browning.

It was a difficult competition for an architect, because it really called for invisibility for any new buildings and a lot of effort to be put into the enhancement of the setting of the stones themselves – which are, as far as we know, untouched by the hands of even the most ancient architects. Circumspection and reticence are not always qualities associated with architects, but Mr Cullinan has designed a simple scheme which consists of a single storey visitors' centre with a grass roof which gives the appearance of being underground. There is a potentially handsome circular viewing terrace and a promenade along the roof top along which you can saunter and contemplate the distant view of the standing stones.

The worrying thing about this new facility, which still has to go through the planning hurdles and is unlikely to be opened until 1996, at the earliest, is that it is so enormous. Much of the space is taken up by amorphous halls apparently designated for "interpretation", exhibitions and displays. There is a separate audio visual theatre to "introduce" the visitor to Stonehenge and a restaurant for the serving of Stonehenge snacks and Druid dinners. There will be a shop selling souvenirs – candles in the shape of Stonehenge, full length Druid outfits, horns and harps and plastic mistletoe. There are also special rooms for the changing of nappies, delivery bays for the unloading of Coca-Cola bottles and rooms for the large numbers of staff to rest their limbs and smoke their cigarettes.

This Stonehenge experience will be surrounded by a "landscaped" sea of nearly 1000 cars and coaches. Visitors will have to walk on grass paths (which will surely soon wear out) to the monument itself.

The architects who have entered this important national competition are not to be blamed for the nature of the brief, which has been drawn up over eight years by endless committees of bureaucrats and well intentioned do-gooders of all kinds. But there is no doubt at all in my mind that the right thing to do at Stonehenge is to moved the offending roads, so that the stones are more remote and mysterious, and then do everything possible to lessen public interest in the site.

All the bogus "interpretation" in the world is not going to add any certainty to anyone's knowledge of Stonehenge. All the shopping and parking, lavatories and nappy changing will do nothing to enhance the real nature of this monument. A distant car park and a long walk is all that is needed. It will save English Heritage from drumming up sponsorship and perhaps allow the stones to speak for themselves.

Opera/**Max Loppert**

Don Carlos

In Tim Albery's new *Don Carlos* production for Opera North, Spain is a cheerless, pitiless place – of imprisoning high walls, narrow vistas, sombre surfaces and hard planes of light. Whether cloister, monastery garden, town square or palace study is the setting, the removal of all Mediterranean warmth is intentional. In the later acts the rigid containment of the visual line is at last breached – only to reveal at the back of the stage a landscape stained blood-red.

This spare, subtle, bleak Verdi staging has been designed by Hildegard Bechtler in a manner marrying Appia-like abstraction to a wonderful painterly refinement of colour and line; it is altogether a sustained feat of dramatic economy. (Only some opening-night waywardness in the lighting box blurred the sharpness of its outlines.) In the medium-sized Leeds Grand Theatre, on a miniscule budget, there was absolutely no question of Opera North simulating French Grand Opera spectacle à la Visconti or Zeffirelli; but style – and subject have been matched with an imagination and intelligence unshackled by budgetary restriction.

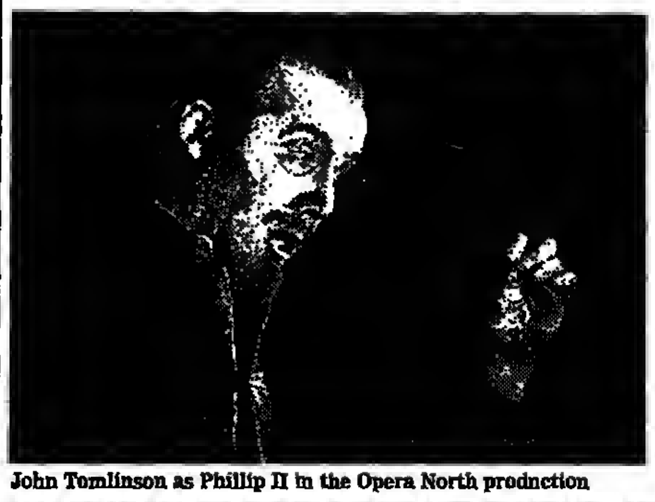
The choice of text has been made a crucial part of this fastidiously concentrated approach. Opera North opts for the four-act (1883) version, Verdi's severely purposeful reduction of his original (1867) expansive five acts; and gives it in Andrew Porter's superb translation. People on the point of being persuaded, by the more fanatic adherents of the Surtitle School, that opera in the vernacular is now a hopelessly old-fashioned notion should rush to Leeds: a demonstration awaits them of the extraordinary, close-binding "contract" that can arise between singing-actors and audience in the moment of theatrically sharing their native language.

On Friday this reached its peak in the scene for Philip and Posa: never before have I been so completely gripped by its smallest pinpointing of communicative nuance, its shifting weights and balances of dramatic and musical insight, its developing theatrical momentum. Since this brought together, in Albery's quietly intense staging of their dialogue, the two most powerfully eloquent members of the cast, it was no coincidence.

Anthony Michaels-Moore, beautifully free and forward of baritone timbre, effortlessly ardent and noble in every utterance, is already a young Posa of high class (who will join the highest once his trill and his walk have been polished). John Tomlinson, whose short stature adds to the impression of a Philip at once fiercely overbearing and pierced with self-doubt, bared the king's soul – fearlessly, frighteningly. In the study monologue the soft singing may have gone hollow, the pitching a touch bumpy, yet in the context of the staging the naked truthfulness of the performance seemed, if anything, increased.

Both singers threw out each word as if it were an expressive lance aimed at the opera's heart. Less so Claire Powell's Eboli, but her sparky personality still sent flashes through the prevailing gloom, and in "O don fatale" she darkened it with strict control of means. This artist is developing apace, to impressive effect. Linda McLeod, a mezzo turned soprano, suffused her first Elisabeth with tenderness, grace and dignity; only the last degree of security and focus at the top is wanting. In the title role the American tenor Richard Burke has the hardest task, and at first appeared unequal to it, but mustered his vocal forces in time to deliver the farewells with poise and affecting sincerity.

A company's first *Don Carlos* is only the beginning. A conductor's likewise: Paul Daniel will surely learn to keep the brass more firmly in check, to hold a more consistently secure balance between dramatic tension and release. The care with which he nursed his singers (Miss MacLeod being lovingly supported through the long phrases of Elisabeth's two arias) was a clear indication of the heartfelt seriousness which has informed Mr Daniel's – and Opera North's – whole approach to Verdi.



John Tomlinson as Phillip II in the Opera North production

Supported by Arthur Andersen & Co and Westherall Green Smith; in repertory at the Leeds Grand until January 29, then on tour to Nottingham, Birmingham and Manchester.

Theatre/**Malcolm Rutherford**

Growing beyond the fringe

The best of London's fringe theatre is outgrowing its original purpose – which was to show to a small audience plays that might not be seen elsewhere. Theatres like The Gate in Notting Hill, The Bush in W12 and The King's Head in Islington are now suffering from the problems of their own success.

Precisely because of their high standards of acting and directing, the performances are often far better than the basic script. Besides, the economics of playing to a full house of under 100 people must be questionable. The next move must be seek more space and better financial arrangements in order to show their wares to a wider audience, which I understand is what The Gate is now doing by appealing to its ultimate landlord, *Allied-Lyons*, for a modest expansion.

Such thoughts are prompted by two fringe productions last week: *Mr Cinders* at the King's Head and *Waiting at the Water's Edge* at The Bush. Neither is wholly satisfactory. The King's Head, which is perhaps the most eclectic of all the fringe, has had a go at Vivian Ellis's 1929 musical comedy before. It revived *Mr Cinders* in 1983 and saw it proceed to a successful run in the West End.

It is much less clear why the piece should be revived again now, except in the hope of finding the honey pot a second time. The hope may be forlorn. In this production by Martin Connor *Mr Cinders* achieves the unusual distinction for a musical of slowing down whenever the music starts and speeding up whenever we return to the dialogue. The normal technique in a musical is the other way round, and while it might be original to stand convention on its head, the trouble is that the music is not quite strong enough: two pianos and some pretty thin lyrics.

There are some incidental pleasures. The story – a male version of Cinderella – is a good one. Some of the lines are very amusing in a P G Wodehouse sort of way. As the hero, there is an excellent performance by Samuel West, shortly to appear in Tom Stoppard's new play *Arcadia* at the National Theatre. The whole cast, including Eileen Page as the grovelling Lady Lancaster, does well. Yet the question one has to ask is what is a cast of this size (17) and distinction doing in a piece like this at the King's Head?

Compare *Mr Cinders* to the previous King's Head production, *Elegies for Angels, Punks and Raging Queens*. The latter had a cast of 33, and made a virtue of it. It succeeded not just because it was good in its own right, but because it was new and different. *Elegies* can, and should, be seen again when it moves to another fringe theatre, the Drill Hall off Tottenham Court Road, on January 19. It is what the fringe theatre ought to be about: bringing in a challenge via the back door. There is no reason why *Elegies*, having made its introductions, should not play on a larger stage.

The problem with the new production at The Bush is that the play is over-ambitious. The Bush has recently specialised in new Irish work, notably Billy Roche's *Wexford Trilogy*. Lucinda Coxon's *Waiting at the Water's Edge* turns to Wales and Nova Scotia in the early 1920s. It is about, in no particular order, mining disasters, guilt, feminism, capitalism, class differences and the relationships between servants and masters and especially servants and mistresses. As a text, I found it pretentious, to put it mildly.

Yet you have to go to The Bush, which must be the most uncomfortable of the fringe theatres in London, to see how a good production in a packed small house can take hold. Directed by Polly Teale, even some of the sillier lines and gestures almost come off. And it would be quite wrong to think that the small stage inhibits movement; sometimes it enhances it. This is a riveting experience, and one can see why actors and directors are prepared to work there, as at *The Gate*, almost for nothing.

My point is that they have begun to deserve something better in the way of conditions. Too many people who would enjoy the fringe still do not go. How to attract them is what we should now be thinking about.

Mr Cinders, King's Head, (071) 226 1916 until early February. *Waiting*, The Bush Theatre, (081) 743 3388 until January 30. *Elegies*, Drill Hall from 19 January, (071) 637 8270.

* In my review of another fringe play, *The Curse of the Pharaohs*, at the Lyric Studio in Hammersmith last week, the parts were transposed. The excellent Egyptian is played by Adam Fahey and the equally excellent Howard Carter by Nick Rawling.

Concerts/**David Murray**

Spanish songs, French winds

Complete performances of Hugo Wolf's *Spanish Songbook* used always to be the province of senior artists. Even more than his *Italian Songbook*, it tests the expressive range and penetration of any singer, whether or not the songs are shared between two voices – as they were by Anne Sofie von Otter and Olaf Bär at the weekend (twice over) in the Wigmore Hall.

Did memories were hard to suppress. This young pair offered a moral of earnest intelligence, careful pacing and any amount of good taste; that left much to be discovered yet. Both were happiest in the wry, romantic songs, especially on a teasing note (Miss von Otter was delightfully forthright, Bär good at comic defenciveness, though in *piano* his projection was sometimes frail). Darker undertones had to be taken on trust – the despair behind 'Ach im Maien Wars', for example, or the numb misery in 'Dereinst, dereinst'. Which is not to deny that Bar made a good fist of the great, tragic 'Alle Gingen, *Herz zur Ruh*', nor that von Otter touched the heart strings with her Julietish 'Geh, Geliebter'.

Those, and many other prettily turned songs, were all from the 'secular' part of the *Songbook* where at the piano Geoffrey Parsons found his best form too – in some fleet, delicate accompaniments there is really no-one to touch him. The sacred or 'spiritual' songs 10 of them at the start) were another matter. Both singers were inclined to over-reverence, despite a lovely, floated 'Gie ihr Schwebet' from the mezzo-soprano, and Parsons was unyieldingly stately.

The baritone rose nobly to the wonderful 'Blendend ihr ins Augen bricht' line in 'Ach, Wie Lang die Selle Schlummert!' – but there was no broad lift from the piano, only an unchanging marmoreal tread. In fact, the 'spiritual' tempi struck me as considerably slower (and much less varied) than Wolf can have expected, especially with younger singers: stretching things out to the limit doesn't automatically suggest soulful depths. Some of those songs can grab you by the throat; on Friday we had to be content with suave, well-modulated singing, and the occasional sharper insight.

A Poulenc feast in the same hall on Thursday (his birthday) had been more straightforward, and yet displayed more complex riches. Not because Poulenc – even late Poulenc – outweighs Wolf; but because the clarinettist Michael Collins had assembled experienced wind-colleagues to deliver pieces which they know like the backs of their bands, and which reward such seasoned players with some of the most appealing music composed for their instruments in this century.

To Collins himself went the late Clarinet Sonata, of course, and its companion sonatas for flute and for oboe were treated with no less expert tenderness and wit by Philippa Davies and Gareth Hulse. Richard Watkins boarded the difficult Horn Elegy (for Denis Brain) with rare confidence. The pianist Noriko Ogawa, mostly idiomatic and thoroughly musical, accompanied everybody with bright tact, and seized her opportunities in the big Trio with oboe and bassoon and the racketty, overflowing Sextet. A very good time was had by all.

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INTERNATIONAL

ARTS GUIDE

■ BERLIN

OPERA/DANCE

Komische Oper *The main event* this week is the first night of Harry Kupfer's new *production* of Les Contes d'Hoffmann on Fri. Neil Wilson sings the *title* role in a staging designed by Hans Schevernoch. *The repertory* also includes Gluck's Orfeo on Wed with Jochen Kowalski (229 2555)
Deutsche Oper This week's performances include Tosca on Wed with Galina Kalinine, Cosi fan tutte on Thurs, *Der fliegende* Holländer on Fri with Robert Hale, Peter Schaufuss' Nutcracker production on Sat and Don Carlo with Julie Varady on Sun (341 0249)
Staatsoper unter den Linden Tonight: Meyerbeer's L'Africaina. Tomorrow: Entführung. *Wed and* Sun: Patrice Bart's new production of Minkus' ballet Don Quixote. Thurs: Die Fledermaus. Fri: Tiefland. Sat: Berghaus-Gielen production of Pelléas et Mélisande. Jan 25: Dmitri Hvorostovsky song recital (200 4762)

CONCERTS

Schauspielhaus Tonight's concert by the Vienna Philharmonic Orchestra is conducted by Lorin Meazel and features symphonies by Mendelssohn and Mahler. Wed, Thurs, Fri, Sat: Milan Horvat conducts Berlin Symphony Orchestra in works by Marcello, Hummel and Strauss, with trumpet soloist *Maurice André*. Sun: Paavo Berglund conducts Berlin Radio Orchestra in works by Kokkonen, Grieg and *Prokofiev, with piano soloist* Justus Frantz (2090 2156)
Philharmonie Tonight: Kurt Sanderling conducts Berlin Radio Symphony Orchestra in works by Prokofiev and Brahms. Wed, Thurs, Fri, Sat: Dennis Russell Davies conducts symphonies by Ives and William Bolcom, plus Ville-Lobos' Third Piano Concerto (Cristina Ortiz). Sun, Mon: Yuri Temirkanov conducts Berlin Radio Symphony Orchestre in works by Rimsky-Korsakov, Sibelius and Shostakovich. Jan 20: Bernard Haitink opens two weeks of concerts with Berlin Philharmonic (2548 8232)

THEATRE

Schlosspark Theater has a new *production* of Alan Ayckbourn's Hero of the Day, directed by Niels-Peter Rudolph (793 1515). Schiller Theater has Die schöne Fremda, Klaus Pohl's topical play about xenophobia in Germany (312 6505). Berliner Ensemble has a new production of Shakespeare's Pericles, directed by Peter Palitzsch (282 3160). Neil Simon's Plaza Suite can be seen daily at Theater am Kurfürstendamm (882 3789). Matropol Theater has Andrew Lloyd Webber's musical Evita daily till Thurs (203 64117). Jan 17-24 at Habbel Theater: Bob Wilson's production of Gertruda Stein's Doktor Faustus Lights the Lights (251 0144)

● *Tickets and information for* theatre, revues, concerts and nightclub shows available from City Center Theater und Konzertkassa, Kurfürstendamm 16 (tel 882 6563 fax 882 6567) and Theaterkassa im Europa-Center (tel 261 7051 fax 261 9286)

■ BONN

● The new management of the Bonn Opera, led by Giancarlo Del Moneco, *presents* its first production next month in the reconstructed Opernhaus: *Otello* conducted by Dennis Russell Davies, staged by Del Moneco, with Alexei Steblyanko in the *title role (first night Feb 14).* The opening season, which runs till July, *also includes new* productions of Der Freischütz, Il *trittico*, Cav and Pag, *Salome* and Warther (773667)
● Highlights of the Beethovenhalle programme this month include a visit from the Bamberg Symphony Orchestra conducted by Herbert *Blomstedt* (Wed), Mozert and Bruckner *concerts conducted* by *Ferdinand* Leitner (Thurs and Fri), and a *programme of orchestral music* by Casella, Rekhmaninov and *Prokofiev conducted* by Sixten Ehrling (Jan 28, 29).
Crommelynck Piano Duo plays music for four hands by Ravel, Debussy and Rakhmaninov tomorrow at Schumannhaus (773666)

■ GENEVA

A ballet production featuring new works by Itzik Galili and *Christopher Bruce* can be seen daily till Fri at Grand Théâtre (311 2311). Jean-Pierre Ramphal plays Krzysztof Penderecki's new flute concerto on Wed at Victoria Hall, in a programme given by the Lausanne Chamber Orchestra conducted by Penderecki (311 2511)

■ LEVERKUSEN

FESTIVAL OF BRITISH MUSIC

The second half of the festival opens this week with a *nine-concert tour of* North-Rhine-Westphalia by the Nash *Ensemble featuring* quintets by Herbert Howells and Elgar, *plus* music by Mozart *and* Weber. The tour includes visits to the Dusseldorf *Tonhalle tomorrow*, Mülheim on Wed, Krefeld on Fri, Leverkusen on Jan 19 and Munster on Jan 21. The final *section of the festival takes place* early next month, when Alexander Gibson conducts the Royal Philharmonic Orchestra *in works* by Britten, Walton and Elgar (with cello soloist Alexandar Baillie) in Leverkusen, Witten, Osnabrück and Duisburg (202-563 6803)

■ MILAN

Teatro alla Scala 20.00 Gidon Kremer violin recital. Tomorrow and Thurs: final performances of Don Carlo. Wed: Nutcracker. Next Mon: Samuel Ramey song recital. Next Tues, Wed, Fri: Georg *Solti* conducts *orchestral* concerts (7200 3744)

■ NEW YORK

OPERA/DANCE

Metropolitan Opera Tonight's performance is the last this season of Janufa, with Gabriela Benackova and Leonie Rysanek. Tomorrow and Fri: La bohème with Leone Mitchell. Wed and Sat afternoon: Samiramida with Lella Cuberli and Marilyn Horne. Thurs: James Levine conducts *first night of Otto* Schenk's production of Die Meistersinger von *Nürnberg*, with Bernd Waikl, Hermann Prey, Karita Mattila and *Francisco* Araiza. Sat: Donald Runnicles conducts Die *Zauberflöte, with* Dawn Upshaw (362 6000)
State Theater New York City Ballet's season continues daily except Mon till Feb 21. Among this week's events are an all-Robbins *evening tomorrow* and the premiere of a new work by Peter Martins on Wed (870 5570)

CONCERTS

Avery Fisher Hall Kurt Masur conducts New York Philharmonic Orchestra *tomorrow* in a programme *including* Haydn's D major *Cello Concerto* (Yo Yo Ma) and Dvořák's Eighth Symphony. Wed: Aprile Millo la soprano soloist with Orchestra of St Luke's. Thurs, Fri afternoon, Sat and next Tues: Masur conducts Shostakovich's Symphony No 12, with Sergei Leiferkus (875 5030)
Carnegie Hall Frederica von Stada gives a song recital on Thurs. Robert Shaw conducts Berlioz's Requiem on Sun afternoon. Jan 19: Philadelphia Orchestra. Jan 21, 22: Russian National Orchestra. Jan 23: Cleveland Orchestra (247 7800)

■ VIENNA

Staatsoper Tonight and Fri: Lucia di Lammermoor with Edita Grubarova and Alfredo Kraus. *Tomorrow: Die Zauberflöte.* Wed and Sat: Khovanshchina with *Nicolai Ghiaurov. Thurs and Sun:* Entführung. Next Mon: Der *fliegende Holländer* with Varady, and Salminen (51444 2955)
Konzerthaus Tonight: St Petersburg State Orchestra plays works by Stravinsky and Tchaikovsky. Tomorrow: Mara Zampieri song recital. Wed: Mitsuko Uchida plays Ravel with Deutsche Kammerphilharmonie. Sat afternoon and Sun morning: Philippe Entremont conducts Vienna Chamber Orchestra in works by Mozart and Tchaikovsky (712 1211)
Musikverein Tomorrow: Isaac Karabtchevsky conducts Beethoven's Missa *Solemnis*, with soloists including Lucia Popp. Wed, Thurs, Fri, Sat: Rafael Frühbeck de Burgos conducts Vienna Symphony Orchestra in works by Brahms and Rimsky-Korsakov. Sun *afternoon:* Sylvia Marcovici plays Bruch's Violin Concerto (505 8190)

European Cable and *Satellite Business* TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

Cartels appear to be forever

Kenneth Gooding says the diamond market has been stabilised

There is an almost tangible feeling of relief in the diamond-cutting centres of Antwerp, Bombay and Tel Aviv, because the diamond producers' cartel run hy De Beers of South Africa has regained its tight grip on the market.

Only a few months ago, a large number of unwanted stones was flooding the market, and there were fears that rough (uncut) diamond prices might collapse.

But now traders suggest that prices are getting firmer, and there are shortages of particular types of polished stones. "Rough [diamond] buyers say the market is now in balance rather than a buyer's market as it was a few weeks ago," says Mr Mark Cockle, editor of Diamoud International, the trade puhlication.

A few traders suggest that De Beers' first rough diamond price increase since a 5.5 per cent rise in March 1990 is not far away.

However, both diamond producers and De Beers itself have incurred considerable financial pain to return the market to stability. Sales by the group's London-based Central Selling Organisation, which controls at least 80 per cent of world trade in rough diamoods, fell 13 per cent from the 1991 level to $3.147bn last year – the lowest for five years. De Beers warned last summer that it might cut its 1992 dividend in March, and industry observers say it used up all the $800m casb it had in the bank at the end of 1991 and was forced to borrow.

Mr Harry Dppenheimer, wbose father founded De Beers and sister company the Anglo American Corporation of South Africa, and whose family still effectively has control, said recently: "Paying dividends is a high priority, although in the nature of De Beers not necessarily the highest. The highest priority is keeping the money togetber to protect the diamond industry so tbat we'll continue to pay dividends for another 100 years."

Apart from its own production in Namihia and South Africa, De Beers has contracts to sell most of the rough diamonds produced by Angola, Australia, Botswana, the Commonwealth of Iodependent States, Tanzania and Zaire. It operates a "buffer pool", stocking diamonds in bad times and liquidating stocks when demand runs ahead of supply.

Rough stones are released to the market in a controlled stream, through "sights" offered hy the CSO 10 times a year to about 160 carefully chosen huyers. De Beers offers the quantities and types of diamonds that its market intelligence network indicates the market can absorb. Each huyer is offered boxes of diamonds costing hetween $500,000 and $25m and has to accept or reject them all.

Traders maintain that the CSO reduced the valua of diamonds on offer at each of the last five sights of 1992 to a total of about $300m – low by recent standards. At the same time, De Beers told diamond producers to cut their previously agreed deliveries hy 25 per cent (permitted under CSO contracts at times of stress), which means the company's stockpila is not growing at such a fast rate.

Last year De Beers also had to cope with an unexpected flow of rough diamonds from Angola where, at its peak, about 50,000 private enterprise diggers were picking stones from dried-up river beds.

The stooes were smuggled out of Angola, mainly to Antwerp, where De Beers tried to huy them. At the height of the rush, De Beers' huyer in Antwerp spent nearly $40m in one week.

The group estimates that about $500m worth of stones was smuggled out of Angola last year, representing a 10 per cent addition to world supply. This compares with Angolan production of about 1m carats of rough diamonds worth about $100m in 1991.

Renewed political tension and war in the country recently has stopped the smuggling and even brought an end to tha government's own diamond production.

Rumoura of snhstantial smuggling out of Russia have also dogged the market. However, De Beers saya the five-year marketing contract signed in 1990 with the then Soviet Union allowed 5 per cent of production to be sold outside the cartel. The rough diamonds surfacing in Moscow for export to the west outside the cartel's channels are mainly from this source, according to De Beers.

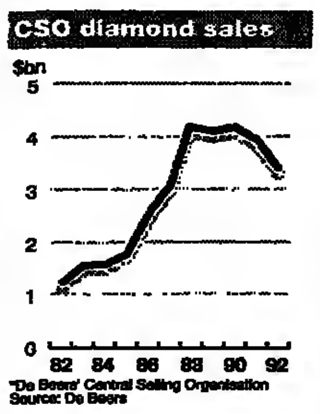
When the contract was signed, De Beers advanced the Soviet Union a $1bn loan, and Soviet diamond stocks were moved from Moscow to London as collataral. De Beers saya that, in spite of the subsequent political changes, Russia has kept its side of the deal and paid interest on the loan on time.

Mr Michael Coulson, analyst at the Credit Lyonnais Laing financial services group, says it is good news for the diamond market that stability has been achieved at CSO sales levels above those seen tbrough much of the 1980s (see chart). But he suggests there will have to be substantial growth to demand – about 6 per cent a year following a "recovery" year with 12 per cent growth – to absorb all potential supply by tbe late 1990s.

Ironically, much of tbe extra supply is coming from De Beers's new R1.1hn Venetia mine in the northern Transvaal which, when in full production later this year, will become South Africa's biggest diamond mine.

Mr Coulson says: "Some suggest it won't be until 1998 that the market will be entirely in balance – and the CSO will still be left with a substantial diamond stockpile to finance." De Beers is looking east to help mop up tbe extra supply. Having developed tbe Japanese appetite for diamonds virtually from scratch over the past decade, the company is looking to new markets in China and India by tbe end of the 1990s.

CSO diamond sales



*De Beers' Central Selling Organisation
Source: De Beers

Class warfare in the people's party

Ivo Dawnay reports on Labour's identity struggle as the modernisers confront the traditionalists

The outbreak of public skirmishing over the relevance to Labour of Mr Bill Clinton's US election victory la really a coded debate about the extent to whlch the party must address tbe values and prejudices of the middle classes.

To many insiders, it might equally be viewed as a atruggle for inflnence over Mr John Smith, the party leader, between Labour's trendily rsdical middle-class tyros on the right and the old cloth-capped workers, espousing gloom and conservatism, on the left.

For the party'a few optimists, the row has at least shown that, behind the apparent complacency over Labour's fourth succesaive election defeat, a debate is under way about whet, if anything, can be done to avert a fifth. Yet there is still little evidence thet any profound change in the party's public persona is imminent.

In BBC toterviews yesterday, both Mr Smith and Mr Tony Blair, the shadow home secretary, wbo is frequently cited as the arch Clintonite and party "moderniser", were falling over themselves to insist that hallowed party theology was not in danger.

Tbe party leader made it clear thet he regarded tampering with Clause IV – the party constitution's controversial commitment to state ownership – as unnecessary and insisted that Lahour's union links were secure. Only a little later, Mr Blair genuflected to the left by stressing that, while there was a case for parties of the left to be tougher on crime (a Clinton bull point), its social context could not be ignored.

Despite these asaurances, some even on the so-called soft-left, such as Ms Clare Short MP, believe that tbere is a clandestine "project" by senior Labour figures to hijack the leadership, abandon the unions and the poor, and jettison core socialist principles.

As introverted as ever, Labour is conducting its post-mortem in coded language and nods and winks, therehy adding credence to Mr Nick Raynsford MP's much-quoted claim that the party is "sleep-walking to oblivion".

There is no doubt, bowever, that – as Mr John Prescott, the party's transport spokesman, said last week – a battle is under way for the heart and soul of the party between the revisionist modernisers and the so-called consolidators or traditlonalists, most vocally represented by Mr Prescott. What is seriously in question is whether it is sufficiently taking into account the views of the voters Labour so desperately needs to attract.

For the moment, the modernisers appear to be making the running. While stressing thet there is no question of Labour becoming a non-socialist party along the lines of the Democrats, they insist that the Clinton victory hrings important lessons abont updating the party's identity.

Such claims infuriate the traditionalists, who believe that efforts to concoct a new public-relations gloss for the party have served only to alienate its basic appeal. Mr Prescott and otbers argue that Labour should concentrate on rebuilding its withered working-class grassroots, make the case for a measure of public ownership, and campaign on its convictions about social solidarity and full employment.

For the modernisers, this formula amounts to little more than a naive faith that Conservative failures and "one last heave" – a redoubling of efforts to sell old-fashioned Labourism – will be enough to win power. They argue that a decade of Thatcherism has irrevocably changed society and, more importantly, voters' aspirations. In consequence, they say, Labour must address itself to the mood of todividualism by broadening its appeal to embrace the white-collar middle third of society, whose politics centres on self-interest rather than the collective good.

Their case was bolstered last week hy the leaking of a confidential Labour poll, showing Labour has failed to make any improvement in its appeal since the April election defeat, and that voters in the electorally vital south of the country continue to identify it as "a party of the past", lacking both credibility and coherence.

With boundary changes due by 1995, which are set to award the Conservatives another 20-odd seats to add to their 65-seat advantage over Labour, modernisers like Ms Patricia Hewitt and Mr Philip Gould, two long-time image consultants, say excessive optimism over the party's 20 per cent opinion poll lead is a dangerous chimera.

Mr John Smith has so far refused to show his hand on what looks increasingly like an outbreak of class warfare within the people's party. He cannot afford to do so for long. During the next three months, the party leader will probahly have to decide crucial questions of great symbolic resonance in the struggle between the two sides.

The commission on electoral systems, under Lord Plant, and the national executive's committee on the party's constitutional links with the trade unions are to report shortly. Both committees are deeply divided. In the end, the questions of proportional representation for the Commons and the extent of union influence in the party will have to be resolved by the national executive committee, heavily influenced by Mr Smith's personal preferences.

Mr Smith will be hard put to find formulas on either question that satisfy hoth the modernisers' and traditionalists' camps. Compromise or delay, however, will smack of weakness.

Beyond these immediate issues, the Labour leader must plan a more comprehensive route march out of the political wilderness. Aldes insist planning is already well under way. But some, such as Mr Frank Field, the maverick Birkenhead MP, feel the pace of change is still far too slow. "We are staring a fifth election defeat in the face," he says. "We should be preparing as if we have already suffered it."

Loyalists, however, argue that the machinery for change is already in place. The Commisaion on Social Justice, under the chairmanship of Sir Gordon Borrie, tbe former head of the Office of Fair Trading, will begin work this month, promising a review of all the options on tax and benefits. That will report in 18 months. Committees on constitutional reform, under Mr Blair, and on European policy have been set up with orders to be ready to report to this year's Brighton conference.

In the meantime, officials say, Labour will project itself as the party dedicated above all to success: both that of the nation, reversing Britain's postwar decline, and that of the individual, helping people to do better and achieve more.

"The simple truth is that for too long we have all been starved of success, dependent on a government which aims too low and so achieves little," Mr Smith wrote recently. "People want a hand up not a hand out."

Yet is all this nothing more than a continuation of Kinnockism? With ideology on the retreat, tbe central power struggle is over how to resolve Labour's identity crisis by giving electors a more convincing account of its goals.

Thoae advocating that Labour should adopt Mr Clinton's appeal to what he described as the working middle class, with a message eschewing special interests in favour of the national one, seem to have caught the leader'a ear. It is doubtful, however, whether Mr Smith could risk the traditionalists' wrath by endorsing fully a report by Ms Hewitt and Mr Gould which commended the SDP-Liberal Alliance for abandoning all the language of class politics and suggested projecting Labour as "the non-political party".

A highly principled politician, steeped in Scottish Christian socialist tradition, Mr Smith's instincts are to appeal to the altruism of the electorate and the good sense of the party, not to resort to factionalism and schism. Both may be mistakes.

The 1992 election suggested that Britain's voters are more self-interested than enlightened. And if he attempts to keep both Labour's traditionalists and modernisers happy, there is a danger that he will end up alienating both – as well, for good measure, as the electorate.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Inevitable conclusions about bank motives

From Mr Richard Davis.

Sir, The recelvership of Lilley is a clear indication that the inept custodians of Britain's financial institutions have decided that companies sbould be refused additional financial support wbere the banks will receive a full payout for tbeir money in a receivership.

The spectacle of hanks sprinting for tbe receivership door when tbey can see an opportunity to make an exit without any loss of book value illustrates the fundamental malaise of the financial aystem.

It is bard not to conclude that these moves will be taken by banks in order to reinforce their capital ratios against the inavitable write-downs that they face on the truly bankrupt companies that they continue to support.

The inevitable consequence of this behaviour is the destructlon of relatlvely healthy companies in favour of those which are dead in all hut name. It is only a pity that the UK has neither a Chapter 11-type process to protect companies operating profitably, nor sufficient legal remedies for investors to challenge the banks' motives in forcing companies into receivership.

Richard Davis,
47 Heyford Avenue,
London SW8 1EA

From Mr William Hodgson.

Sir, A special resoluttan requires a 75 per cent vote of approval by shareholders. The recent demise of both Sale Tilney and Lilley, owing to a lack of unanimity among tbeir respective bankers, could possibly have been avoided if banks hed learnt, at last, that tha power of a charge over assets should also be accompanied by responsibility of effective ownership of those assets.

One rule for tbe goose, another for the gander, is not a satisfactory recipe in a recession.

William Hodgson,
Tumblecroft,
Up Marden,
Chichester,
West Sussex PO18 9LA

Universities failed by mediocre policy

From Prof B McA Sayers.

Sir, Your leading article, "University challenge" (Jannary 5), starts down the right path, but goes nowhere near as far as tbe national interest demands.

Major university institutions like Imperial College are indeed a national asset; every one of the six engineering departments in the City and Guilds College (the engineering faculty of Imperial College) was top-rated against international standards in the latest Higber Education Funding Council Research Selectlvity Review. As you imply, it is wasteful dissipation of an asset to require such institutions as this, for financial reasons, to focus dominantly on undergraduate teaching. The great power of Imperial College lies in its research strength and its postgraduate teaching; national interest demands that these strengths be utilised to the full.

The dominant role of a few universities such as Imperial College is at postgraduate level, and we welcome public recognition of this fact. Yet the accountants are in control, as in so much of Britain today; public funding largely follows undergraduate numbers.

Desplte ministerial assertions, funding for research, and even more for the research students through whom much research is done, is inadequate to meet the needs of the country's top institutions or the potential national opportunities that they could provide. In the technological interests of the country, this is mediocre policy.

But in current circumstances, can the UK – even in its own interests – adequately capitalise upon Imperial College and other such institutions? If the UK cannot, perhaps Europe should? We at Imperial College are ahle to identify a range of long-term research toterests which transcend national frontiers. These seem to ns to be of socio-economic significance to Europe as a whole, and offer an ideal and sustained opportunity for high-quality research training of postgraduate students.

Now, above all, is the time for viston, for thought on a supranational, European scale. Should Europe now be considering strategic investment in a few special institutions?

B McA Sayers,
Dean of the City and Guilds College,
Imperial College of Science, Technology and Medicine,
London SW7 2AZ

Drug prices

From Dr Frank Diener.

Sir, Dr John Griffin (Letters, Novemher 10) and Mr Sonabend (Letters, October 30) have cited different drug price todices for the year 1991. The European Consumer Organisation, BEUC, made in 1988 an often cited EC drug price comparison which was updated to 1992 by the German Federation of Pharmaciats Association, ABDA. This renewed EC drug price comparison shows a figure for 1991 as: Denmark 143; Netherlands 134; Irish Republic 130; Great Britain 125; Germany 111; Belgium 101; EC average 100; Italy 96; Luxembourg; 95; Greece 86; Spain 84; France 64; Portugal 58.

Frank Diener,
ABDA,
Deutsches Apothekerhaus,
Beethovenplatz 1-3,
6000 Frankfurt am Main 15,
Germany

Cargo law

From Mr James Munro.

Sir, One point apparently not yet plckad up in the many poat-mortem reviews of the Braer tanker disaster is the following. Oil tankers should be handled as if "dangerous cargo" (such as toxic waste), and therefore shipowners/charterers should be forced hy EC law/UN resolution (a) to file details of the route of each voyage with a suitable supervisory agency that has powers to veto/adjust/delay, and (b) to accept "pollution prevention pilots" on board for parts of the voyage whare problems might be expected.

I suggest that these simple measures would probably have prevented the recent tanker disasters in Spain and the Shetlands.

James Munro,
49 Blandy Road,
Henley, Oxon

Flaws in the idea of an 'output gap'

From Mr Chris Dillow.

Sir, Mr Samuel Brittan (January 7) reports that estimates of the gap between actual and potential output have been revised down. Unfortunately, he omits to say that the fact of such a revision casts grave doubt on the very concept of an "output gap".

Sucb a gap is only meaningful if the rate of growth of potential output is independent of actual ontput growth. Mr Brittan belatedly recognises that this is not the case, as be says that the capital scrapping caused by the recession has reduced potential output. He should have added that capital scrapping is not the only way in whicb the recession has reduced potential output growth. The weakness of investment may have exacerbated the mismatch between what UK industry can produce and the composition of demand, so that even capacity which has not been scrapped is, in effect, unusable. This is confirmed by last year's sharp rise in imports, despite the weakness of demand.

This convergence of "potential" output towards its actual level means that the idea of an "output gap" is – and always was – profoundly flawed. Those hoping that this "gap" will hold down inflation may be profoundly disappointed.

Chris Dillow,
UK economist,
Nomura Research Institute Europe,
Nomura House,
1 St Martin's-le-Grand,
London EC1A 4NP

Governor who?

From A Spence.

Sir, Your editorial, "Choosing a new governor" (January 7), to reference to the Bank of England courageously suggested that it was the economy that was important, not the views of the prime minister and the chancellor.

You also described the new governor (whoever he or she may be) as a "he" which, I trust, was unintentional.

A Spence,
33 Leyfield,
Worcester Park,
Surrey

FINANCIAL TIMES
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Monday January 11 1993

History and George Bush

IT WOULD, sadly, be rather appropriate if President Bush's term of office were to end in one more confrontation with Iraq – a decisive victory for the US in purely military terms, yet inconclusive and unsatisfying politically. For the presidency as a whole, in retrospect, has something of that quality: a period in which the US reacted to world events with competence and firmness, yet failed to implement, or even to articulate, a broader political strategy.

The conventional wisdom is that Mr Bush was successful in foreign policy, but paid the political price for neglecting the domestic economy. Seen from a distance, however, his economic management rates at least a beta plus, while his foreign policy looks uninspired.

His competence and professionalism are not in dispute, and indeed compare favourably with those of his immediate predecessors. Yet it is arguably not with them but with Harry S Truman that he should be compared, because no president since Truman has been presented with quite such dramatic challenges.

He did act with admirable steadiness in insisting that Germany could and must be reunited within Nato; and in ensuring that the break-up of the Soviet Union was not accompanied by loss of control over its nuclear weapons. But he never seemed to grasp how much was at stake in the heroic attempt of Russians and other east Europeans, after decades of communist oppression and mismanagement, to adopt market economics and liberal democracy.

Shared criticism

No doubt any simple transposition of the Marshall Plan model would have been inappropriate. No doubt in the 1990s the US could reasonably expect a much greater share of the economic burden to be borne by its allies. Certainly any criticisms of Mr Bush have to be addressed in equal or greater measure to the leaders of Europe, whose interest in the matter was more obvious and direct. Even so, the transformation of eastern Europe called for a western effort of solidarity on the Marshall Plan scale, not just in financial terms but in imagination and leadership; and the US president was the person best placed to provide such leadership. It cannot honestly be said that he did so.

The new circumstances also required a reforging of Atlantic ties, which could no longer be taken for granted in the absence of the Soviet threat. The US secretary of state did call for such a reforging in December 1989. If nothing much has come of it, that is as much the Europeans' fault as Mr Bush's. The latter at least appreciated the importance of an open trading regime with rules accepted by all parties. Yet, without in any way excusing the near paralysis of the European Community, it must be asked whether he really gave this issue the priority it deserved.

Withdrawn slogan

He will be remembered as the leader of the coalition that reversed Iraq's annexation of Kuwait, giving a new authority to the UN Security Council, and as the man who proclaimed a "new world order" in 1990, only to withdraw the slogan a year later. He has been ready to exploit some of the opportunities offered by the absence of a global rival, deploying US military force to impose a minimum of international order in the Middle East and, more recently, a minimum of civil order in Somalia. But these actions have been reactive, and carefully limited in time and scope.

They have been accompanied, too, by repeated assertions that the US cannot and will not act as the world's policeman. Yet that, it seems, is a role the US cannot wholly avoid. It needs to be institutionalised and multilateralised. The US should not have to bear the whole burden, but equally it cannot expect always to be in command: nor can it continue to treat the UN as essentially a diplomatic convenience.

The windows of opportunity that opened in 1989 have not yet banged shut, but many may be close to doing so. The American people have denied Mr Bush a second term, sensing perhaps that he lacks the stature for such a unique historical moment. They have elected a younger, more glamorous and more articulate president, who is not the first to declare the domestic economy his main priority. He may find, like others before him, that he is ultimately judged by his success or failure in discharging America's international responsibilities.

Nationalising the police

PLANS FOR a radical reorganisation of the police service in England and Wales are to be discussed by a special cabinet committee this week. The plans would reduce the number of police authorities, transfer responsibility for police funding to Whitehall and put police committees under the control of government appointees. If agreed, they amount to the effective nationalisation of the police, a step which is not only unnecessary but also undesirable.

At present, the police service is provided by 43 police authorities. They receive 49 per cent of funding from local government and 51 per cent from central government. Elected councillors fill two-thirds of the places on the authorities, with the balance going to magistrates. Some authorities share boundaries with county councils; others span several local government areas, with representatives from each. The exception is London's Metropolitan Police, which is directly accountable to the home secretary, because of its national importance.

Mr Kenneth Clarke, home secretary, is proposing to reduce the number of police authorities, possibly to 25. Their funding would come entirely from the government. No doubt in consequence, the government would appoint the majority of police authority members. Policing would become a national service, delivered by quangos largely unaccountable to those they serve.

Civil liberties

Mr Michael Howard, environment secretary, is reported to be opposing this further diminution in local accountability. He is right: too many public services are now in the hands of unelected Whitehall officials. It is also undesirable on civil liberties grounds that so much power be concentrated in the home secretary's hands. In a country where one-party rule is dangerously close to entrenchment, locally accountable police services are part of an essential system of checks and balances.

Centralisation is also wrong from the point of view of effectively tackling crime. It is true that some forms of criminal activity require a national approach. But this can be tackled – as it already is – through co-operation between police forces to deal with problems such as terrorism and drug trafficking. Police action to stop flying pickets moving around the country during the last miners' strike demonstrated that effective national action was possible even in conditions of political controversy.

Trusting relationship

More important, the success of day-to-day policing depends on relationships between the police and the communities they serve. Without trust, the flow of information central to preventing crime and catching criminals dries up. So too does confidence in the responsiveness of the police service, an essential element in creating a safe and secure environment. Such relationships are unlikely to be fostered by a police service run from London.

There may be a case for fewer police authorities. It may be true – though it has yet to be proved – that larger forces are more efficient. And police authorities coterminous with counties may be prone to the political interference that dogged the old watch committees when police forces were under municipal control. A breakdown in the relationship between the former chief constable of Derbyshire and local politicians on the county council led to a deterioration in the standard of policing in that county in the 1980s.

However, the police services should be more independent of Whitehall, not less. If change is needed, it should be directed towards strengthening the accountability of police authorities to elected local authorities. The shape of those authorities is currently under review by Sir John Banham's Local Government Commission. Change should therefore be deferred until the Commission has completed its reorganisation of local government.

In any case, the Sheehy Inquiry is examining police pay, grading and efficiency. Further changes in policing procedures are likely to follow the report of the Royal Commission on Criminal Justice. Mr Clarke has more than enough on his plate without this undesirable centralisation of yet another public service.

Japan covets lead role in Asia

'Miyazawa's doctrine' will set out a change in regional emphasis for his country, writes **Robert Thomson**

Our rise can be likened to that of a person who opens a tiny shop, works relentlessly to increase profits and save money and, one day, looks around to find that the shop is one of the biggest in the neighbourhood. We can no longer simply think only of ourselves – Professor Shinkichi Eto, president of Asia University, Tokyo.

When Mr Kiichi Miyazawa, Japan's prime minister, touches down in Thailand on Friday as part of a four-nation tour of south-east Asia, he will deliver a speech billed by his government as an important postwar review of the country's role in Asia. It is already being dubbed the "Miyazawa doctrine".

Mr Miyazawa will show due deference to the US, stressing the strategic importance of its security role. But, between the lines, the speech will suggest that Asians should settle their own disputes and that Japan will gradually move closer to centre stage.

His visit to Indonesia, Malaysia, Brunei and Thailand comes as the Japanese recognise that the political and economic sands are shifting. On the eve of a new US presidency, which Tokyo expects will be inward-looking, and with Asian nations debating how they should solve regional security issues, the Japanese government senses an opportunity to reform its small-shopkeeper mentality.

Japan's bilateral ties in Asia are as complex as the individual nations are diverse. The relationship with China is haunted by history and a sense of inferiority, while links with south-east Asia are coloured by Japan's wartime brutality.

However, Tokyo feels that the time has come to develop an "Asia policy", with principles as relevant to South Korea as to Burma. Mr Miyazawa's tour will not finalise that policy, but marks an important step along the way.

Japan's Asia policy cannot be considered without reference to the US. In the postwar period, the US has been Japan's largest market by far, and maintaining stable relations was the first priority for a country with an export-driven economy. Bowing to the US lead on foreign policy and defence issues allowed the Japanese government to concentrate on civilian development and avoid awkward foreign-policy decisions.

Differences have emerged between US and Japanese interests. Japan has seen the period since the June 1989 massacre of pro-democracy demonstrators in Beijing's Tiananmen Square as an opportunity to improve relations with China, while other countries, including the US, were treating it coolly. Japanese business sees Vietnam as an ideal location for low-cost, offshore production facilities, and Tokyo recently resumed aid to Hanoi, while the US maintains its embargo on business with Vietnam.

Japan is increasingly reliant on trade in Asian markets. They account for 41 per cent of its total trade, while north America accounts for 30 per cent; five years ago, both regions had 35 per cent.

The government is concerned that the North American Free Trade Agreement, encompassing the US, Canada and Mexico, may become a trade bloc, prompting more serious thought in Asia about the need for a regional free-trade area.

While Japan is concerned about a North American trade bloc, some US Congress representatives have complained of a "yen bloc" in Asia. Research by Bank of Tokyo found a 50 per cent rise in the proportion of yen-denominated imports over the past five years, "attributable not only to a relative decline in trading transactions with the US, but also to a relative increase in trade with east and south-east Asia, where the share of yen-denominated transactions has traditionally been high".

The Japanese government has not wanted to offend the US or China, or other leading trading partners. But the larger Tokyo's political profile, the more it is likely to draw criticism from countries apprehensive about an expanded role.

A flurry of recent government reports – though they lack detail on politically sensitive initiatives – suggests there is agreement in Tokyo that Japan should take a political stand.

"As the Asia-Pacific region gains further influence and moves towards becoming an open, pluralistic region with a central role in the global community, the Japanese people must assume a heavy responsibility," says a prime ministerial advisory panel in Japan and the Asia-Pacific Region in the 21st Century, published last month.

The report, which forms the core of the "Miyazawa doctrine", says that, in economic terms, Asia will be the "world's brightest spot over the next century".

For Japan, the region is already the bright spot amid the gloom of international recession. A survey by the Ministry of International Trade and Industry shows the average return on sales for Japanese manufacturing projects in Asia is 5 per cent, compared with 3.2 per cent in Europe and – 0.9 per cent in the US.

Japanese direct investment overseas fell 27 per cent last fiscal year and a further 12 per cent in the first half this year, but investment in China will double this year, and has risen in Indonesia and Vietnam.

Though Japanese electronics makers have had a difficult three years at home and in the US and Europe, annual growth in demand for televisions in Asia was 10.1 per cent over the past five years, for VCRs 21 per cent, and for motor vehicles 26 per cent, according to Mitsubishi Bank.

Japan, frustrated at being perceived as just a car salesman, has already been seeking to expand its international role, especially in Asia. Foreign bilateral aid spending was increased 69 per cent over the five years to 1991. East Asia received 47 per cent of the money.

Tokyo is likewise keen to play a leading role in the international debate on the environment.

It is also accumulating a small list of Asian policy successes. It is the principal contributor to funding for the UN operation in Cambodia, and its dispatch – after agonising debate in Japan – of peace-keeping personnel to Cambodia has generally been perceived, at home and abroad, as a useful contribution.

However, the most difficult challenges in developing an all-encompassing Asia policy will be in responding to issues such as the rapidly developing sophistication of Chinese military hardware. It will also mean finding a security role which respects the concerns of countries that suffered under the Japanese military, but which allows Japan to play a part in solving regional disputes such as that over the Spratly Islands – atolls in the South China Sea claimed by China, Malaysia, the Philippines, Vietnam, Brunei and Taiwan.

A serious obstacle to developing such a coherent policy is the decayed state of the Japanese political system.

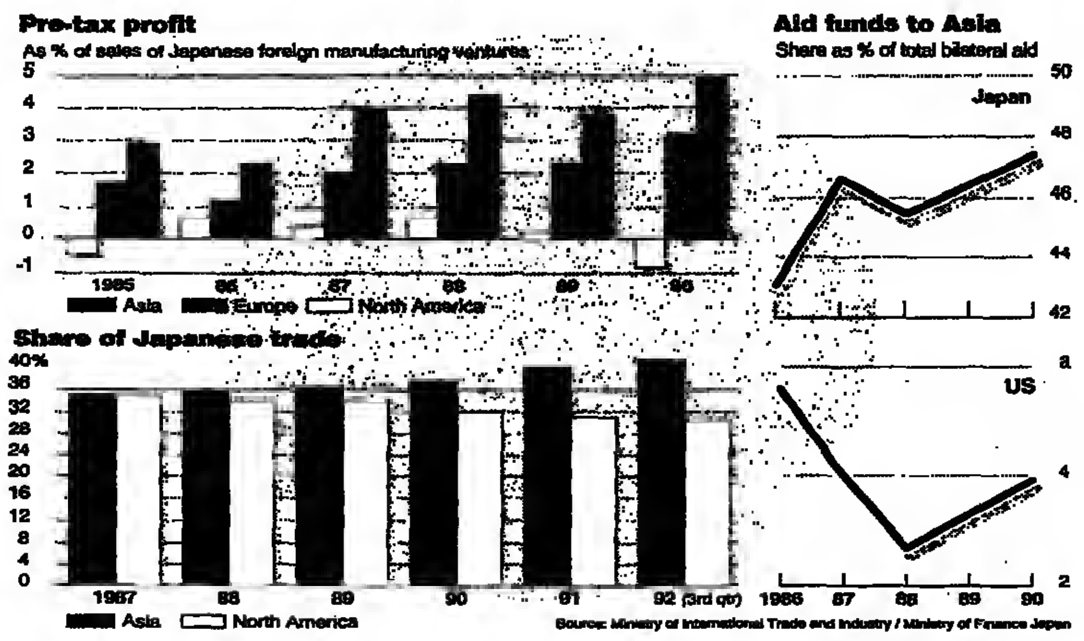
A report on Japan's priorities for 1993 by the Keidanren, the Japanese industry federation, said that political reform will be at the centre of any serious changes in social or foreign policy. According to the 21st Century report, Japan must build a "mature democratic government", meaning that the political system should be more responsive to foreign policy challenges and less obsessed by factional fights within the ruling Liberal Democratic party.

That will also mean elaborating a more coherent framework for Japan's foreign relations. Neither the bureaucracy, which is crucial to the policy process, nor the LDP has articulated principles on democracy in Asia, for example. The military regime in Burma is still receiving aid. And when Mr Chris Patten, the Hong Kong governor, explained his democracy proposals to Mr Miyazawa, the prime minister said "I understand", preferring not to give an opinion. Officially, such statements are justified as respect for "the diverse routes" to democracy.

The need for more durable principles was stressed in another officially sponsored report, intended to be the cornerstone of a redefined US-Japan relationship. Prepared by select executives and academics, the report says Japan must clearly explain its vision "on which it must take action as a responsible great power, not passively responding to external pressure from the US or any other foreign nation".

If the small shopkeeper does begin to behave as a "great power", the challenge to redefine perceptions and policies will be as great for Japan's partners as it is now for Japan itself.

Japan's sun rises in the east



Source: Ministry of International Trade and Industry / Ministry of Finance Japan

Samuel Brittan

Radio 3's false response to Classic FM

Consumer choice is a subtle matter. Where products are fairly standardised, then a modest number of rival companies and models is usually enough to meet it, so long as markets are contestable – that is, newcomers can enter to stir them up.

But when it comes to complex, compound products such as television and radio channels, the matter is different. Each channel is a unique product. Consumer choice is further limited when for technical reasons the number of channels is restricted and we are concerned with minority tastes, such as that for "classical" music (which, of course, includes romantic, baroque and much else).

In these circumstances, public policy has a role. If I could insert a credit card in a slot to obtain a music station of my choice, I would gladly do so. But under present technology, radio transmission of music of high reproductive quality has to be financed by taxation (ie the licence fee) or by advertising.

The UK music listener now has a choice between the BBC's Radio 3 and the new, private enterprise Classic FM. On balance, the change is for the better. The challenge of Classic FM has livened up Radio 3, persuaded its announcers to adopt a less funereal tone and above all given listeners a choice if they do not like Radio 3's offering at a particular time.

Nevertheless the results are not as good as they could have been; and there have been some unnecessary losses. It is well known in other spheres that a duopoly can acquire many of the features of a monopoly. When there are only two producers, each tends to acquire most of the features of the other, as consumers of soap powder know only too well.

The problem has been the quality of the Radio 3 response, which fits all too neatly with the soap powder model. Classic FM has made no secret of its popular bias. In the mornings especially, pieces are usually short, single movements; there are many interruptions, not only for advertisements and news bulletins, but for telephone calls from listeners, competitions and so on. The result is better than this recipe suggests; and new recruits have been won for serious music. Moreover, at evening peak hours, there are full concerts without such breaks, consisting of classic performances of works by Mozart, Beethoven, Brahms and many others, which Radio 3 would have found beneath its dignity to provide so frequently.

Nevertheless, if the listener is to have a real choice in the mornings, Radio 3 should concentrate on providing something different from Classic FM. This is not a time of day for very esoteric programmes or avant-garde music. But at least the listener who is not in the mood for chat and bitty pieces should be able to hear continuous works of music without the interruption of the spoken voice. There are many other spoken-word channels from which he can get his fill of that.

Instead, however, Radio 3 has gone from the esoteric to the populist extreme. Its morning offering of weather reports, plugs for BBC programmes, interviews and fragmented music is hardly to be distinguished from Classic FM's. Indeed, the BBC change began before the new station started, no doubt as a pre-emptive effort. Thus the listener is deprived of genuine choice and the BBC is deprived of its justification for using tax finance.

Above all, there is no escape from the incessant news bulletins. I do not know what is worse: to hear identical repetitions of identical news bulletins or to hear items reshuffled and reworded to create a *false impression of novelty*.

The moral is quite simple, and it applies too to the rethinking of BBC television services, where much greater sums are at stake. This is that the job of publicly financed channels is neither to provide what the commercial networks can perfectly well provide, nor to cater for very tiny groups of high-minded people, but to cater for the choices of sizeable minorities whose tastes cannot yet be supplied through normal market forces. This is a difficult doctrine for public servants to comprehend, but do so they must.

OBSERVER

Unsafe seats

■ Businessmen beware. Being chairman of a big quango is one way to collect a knighthood. But it can also damage your reputation if the quango misbehaves. *Is the risk worth taking?*

Both the Welsh Development Agency and the West Midlands Regional Health Authority are seeking new figureheads after government watchdogs reprimanded them for sloppy financial behaviour. The agency's chairman, Gwyn Jones, is hanging on until a successor is found, but Sir James Ackers has resigned after 10 years as chairman of the country's largest regional health authority following growing disquiet about its money management.

Ackers's decision to quit is a cautionary tale for other business folk. Perhaps he should have spent more time keeping an eye on the family truck-rental business, a casualty of the recession, than collecting his various quangoships.

At various times he has been on the Monopolies and Mergers Commission, the National Economic Development Council, the National Training Task Force, and the Committee of Inquiry into Civil Service Pay, not to mention the body representing regional health chairmen, which he chaired.

A diehard Tory, he is the sort of businessman that the government has come to rely upon in its efforts to make the public sector more efficient. Alas, the fact that he has been temporarily replaced by Sir Donald Wilson, a 70-year-old Cheshire farmer already heading the Mersey Health Authority, suggests ministers are now finding top-flight younger businessmen *hard to attract*.

Privy counsel

■ Recovery or not, is Britain returning to a more civilised culture? A colleague was lately consulted by a public relations man using a portable phone on a train to Norfolk. He was speaking from the lavatory, he said, as he was "too embarrassed to be seen taking *the thing out* in a public carriage".

Sand-man

■ To judge by the frequency of people's claims to know how to do it, turning water into motor fuel is a doddle. To go by the number on record as having actually done so, however, it's rarer than the transformation of water into wine.

The latest claimant is Professor Ilya Varshavsky of Moscow's Institute of Theoretical Engineering. "Beneath our feet is an *inexhaustible supply of fuel,*" he says, referring to sand as a source of silicon. Apparently, if a pinch of the latter is popped into the water-filled reactor fitted to his

Moskvitch limo, hey presto: out comes hydrogen to power the car.

"The basic research has already been done," he told an interviewer from the Russian Information Agency, expressing confidence that the process will be widely used in everything from "cars to the construction of a lunar base".

Unfortunately, when Observer's colleague in Moscow called the institute for clarification, he was told everyone was on holiday. Nor is the FT's science correspondent entirely happy with the idea, saying that it's impossible to see how silicon can generate hydrogen from water without an energy source.

One possibility would be a sun-powered photovoltaic cell made from silicon which can produce electricity to split water into hydrogen and oxygen. Even so, the device would at best be of little use during during Russia's long bleak winter.

Déclassé

■ It's not the best of new years for the World Bank's globe-trotting staff. In a cost-cutting drive by its president, former J P Morgan boss Lewis Preston, first-class air travel as a matter of course has been restricted to vice-presidents and above. For lesser mortals, it's business class on flights of under 12 hours, which covers nearly all Europe and Latin America.

Preston's move will be popular in Washington where few officials enjoy comparable perks. But it could be embarrassing for Michel Camdessus, boss of the World Bank's sister organisation, the International Monetary Fund.

His staff still take first-class travel for granted.

Another gone

■ Why is it that management magazines seem to suffer from more executive turmoil than most businesses they report on? Only a week after Observer drew attention to the rapid turnover of editors at Britain's Management Today, comes news of a behind-the-scenes editorial coup at the Harvard Business Review, organ of the world's best known management school.

The arrival of New York Times columnist Joel Kurtzman, 45, in the new job of executive editor at HBR, seems to have swept the chair from under T George Harris, appointed editor in August after previously running Psychology Today and American Health.

True, the 67-year-old Harris – hired, reputedly for his professional publishing skills, to replace Harvard academic Rosabeth Moss Kanter – remains editor nominally. But it looks unlikely that his name will long top the masthead, given that Kurtzman reports directly to the magazine's publisher instead of through Harris.

Inner spirit

■ Anyone doubting that talent for big-business leadership can show very early may care to consider the following teatime conversation between a four-year-old and his mother, quoted in Margaret Donaldson's book, Human Minds, published by Penguin.

He: Is God everywhere?
She: Yes dear.
He: In this room?
She: Yes.
He: Is he in my mug?
She (*growing uneasy*): Yes.
He (*clapping his hand over the mug*): Got him!

FINANCIAL TIMES
Monday January 11 1993

Negotiators try to resolve issues before Clinton takes office

US, EC in last-ditch Gatt talks

By Frances Williams in Geneva

NEGOTIATORS from the US and the European Community are meeting in Geneva in a last-ditch effort to resolve their outstanding differences in the Uruguay round of trade talks before President-elect Bill Clinton takes office on January 20.

Officials from other countries have also been drawn into the discussions, which began on Friday and are expected to intensify in the coming days. Trade diplomats hope that an outline deal, or evidence of progress towards one, can be presented to the meeting of senior Uruguay round trade negotiators next Friday.

Since the US and EC settled their farm trade wrangles last November, the six-year-old round has been beset by a host of other disagreements and by political uncertainties on both sides of the Atlantic.

In Washington, top officials are packing their bags and looking for new employment while the Clinton transition team argues over trade policy. In Europe, France has been snapping at the heels of the Community's negotiators over services as well as farm trade, and the Community trade and agriculture portfolios have just changed hands.

Mrs Carla Hills, President George Bush's trade representative, and Sir Leon Brittan, the EC's new trade commissioner, nevertheless decided on January 2 to aim for an outline deal by next Friday.

This would enable Mr Clinton, if he chose, to submit a more or less complete accord to Congress by March 2, when the administration's negotiating authority expires. Failure to catch that deadline could delay the round by months, if not years.

The teams in Geneva headed by Mr Warren Lavorel, US chief negotiator, and his EC opposite number, Mr Hugo Paemen, are trying to agree a package of industrial tariff cuts and narrow differences elsewhere. EC officials say an early agreement will require restraint by Washington in reopening the existing draft package of Uruguay round agreements drawn up 13 months ago.

Washington has asked for renegotiation of some 25 issnes, including anti-dumping and subsidy rules, patent and copyright protection, and establishment of a multilateral trade organisation.

The revised US tariff offer, belatedly produced on Friday, entails tariff cuts of just over one-third, but this includes zero-for-zero deals which have not yet been agreed by the EC or others. It does not include cuts in tariffs on textiles and some other sensitive products, though officials have said cuts could be made in exchange for a satisfactory zero-for-zero package.

Italy plans to raise around DM4bn in Eurobond issue

By Brian Bollen in London

THE ITALIAN government, absent from international capital markets for two years, is expected to test its credibility among foreign investors this week as it launches one of the largest Eurobonds issued in D-Marks.

The issue, expected to raise about DM4bn ($2.5bn) to supplement depleted foreign currency reserves, would be the first since last year's political crisis and currency turmoil which led to the lira's suspension from the European exchange rate mechanism.

Deutsche Bank has been asked to arrange the country's first-ever Eurobond offering in D-Marks which could be launched as early as today.

Italy's credit standing has deteriorated over the past two years, forcing it to abandon the international financial markets and rely instead on domestic savers to finance its large budget deficit.

Italy, which until the early 1990s enjoyed the top triple-A rating allowing it to borrow at the cheapest rates, suffered an unusual two-notch cut in its rating by Moody's Investors Service, the US credit rating agency, during last summer's uncertainty.

This blow has been one factor encouraging the government to tackle its budget deficit. The government of Mr Giuliano Amato has pushed through a tough austerity package for 1993, including privatisation and reforms for the health service, pensions, the civil service and local administration.

The new issue will be one of the largest D-Mark Eurobond issues seen so far and compares with the DM5.5bn issue launched in October by the British government, one of a succession of European countries which queued up to borrow the German currency after last year's European currency crisis depleted their foreign currency reserves.

Some central banks had an obligation to repay the Bundesbank in D-Marks for the support it gave to their currencies.

The pricing of the bonds is expected to be cautious to reflect the importance of the issue's success. A meeting of banks will be held in Frankfurt today, and pricing is likely to take place tomorrow. They are expected to have a maturity of five years and offer a yield spread of 50-55 basis points (0.5 to 0.55 percentage points) over the yield of five-year German government bonds.

This compares with a spread of around 10 basis points for the UK issue in October, although spreads for all borrowers have widened since then.

The issue will also be the first test of the country's worldwide standing since international banks suffered problems last year with Efim, the Italian state holding company which was put into voluntary liquidation last July.

Italian borrowers were also effectively shut out of the international syndicated loans market while bankers lobbied the Italian authorities for a commitment to repay Efim's debts in full. Although the authorities eventually agreed, bankers have still received their money.

Some of the Italian borrowers who have tested the international banking market in recent weeks found they had to pay spreads of double those they would have paid before the Efim affair.

Scientists discover method of selecting calves' sex

By Cliva Cookson, Science Editor in London

THE FIRST calves whose sex was predetermined at the time of conception have been horn in Cambridge, England, an Anglo-American scientific team will announce today.

The ability to choose a calf's sex, long sought hy cattle breeders, is likely to transform tha economics and management of livestock production worldwide.

The Holstein Friesian calves – three male and three female – are the result of collaboration between Mastercalf, a Cambridge hiotechnology company; the Institute of Animal Physiology and Genetics Research in Camhridge; and the US Department of Agricultnre's Germplasm Physiology Laboratory in Beltsville, Maryland.

The scientists are now prodncing more than 100 pre-sexed calf embryos a week for use in large field trials which are under way on farms in the UK.

If all goes well, sex determination will be available commercially within a couple of years. It will make a big impact on the dairy and beef industries, says Mr Barrie Andis, chairman of the British Cattle Breeders Club.

The technique depends on an extremely sensitive instrument, called a flow cytometer, which sorts hulls' sperm according to their genetic content. Sperm with an X-chromosome result in female calves and those with a Y-chromosome give males.

The sorting process does not give enough sexed sperm for conventional artificial insemination, making in vitro fertilisation and emhryo transfer necessary. Cows' eggs are fertilised in test tuhes with the appropriate sperm and the resulting embryos are used to establish pregnancy.

Mr Geoff Mahon, Mastercalf managing director, says sex determination will be comhined with other techniques of genetic selection, so that hull calves can receive the characteristics most desirahle for beef prodnction while heifers retain the hest genes for milking.

Male embryos will be most in demand, since beef farmers want only hull calves.

Mr Mahon says the likely cost of sex-guaranteed embryos is still uncertain. As a potential customer, Mr Andis says: "I could justify huying an embryo for £50 to £60 if I am guaranteed that it is a male beef calf."

With the world population of dairy cattle estimated at 220m – about half of which are prodnced hy using artificial insemination – Mastercalf sees a large market for the technology.

Kenya 'ordered debt write-off' for chief election official

By Michael Holman in Nairobi

KENYAN government officials ordered a state-controlled bank to write off the Ks30m ($857,000) debt of a former judge soon after he was appointed to chair the commission that organised last month's election, according to legal sources in Nairobi.

Further information about the financial record of Mr Zachaeus Chesoni, appointed to the commission in Septemher 1991, is contained in a confidential file given to Mr Justice Telford Georges, leader of the 38-member Commonwealth group that monitored the poll.

In his first public comment on the dossier, Mr Justice Georges outlined its contents and sharply rehuked the Kenyan authorities.

Interviewed hy telephone at his home in the Bahamas, Mr Justice Georges, a former chief justice and a privy counsellor, said: "The government should not have persisted in keeping Mr Chesoni on as chairman of the electoral commission."

Bankruptcy proceedings against Mr Chesoni were initiated by Kenya Commercial Finance Co Ltd, part of the state-owned Kenya Commercial Bank. The bank obtained judgment in its favour but was instructed by a government official not to pursue its claim. The file reveals that in 1984 a state-controlled hank dropped an action to recover a Ks20.9m deht incurred while he was a high court judge.

During 1990, the bank revived its action to enforce the judgment. But in 1991, according to legal sources in Nairobi familiar with the case, the bank wrote to its lawyers telling thsm to drop the action because the government had instructed the bank to write off the debt, now standing at Ks30m as a result of accrued interest. This was soon after the decision to appoint Mr Chesoni to the electoral commission.

The existence of the dossier was not disclosed when the Commonwealth observer group gave its qnalified approval of President Daniel arap Moi's victory in a preliminary report on January 1. A full report is dus to be published this week.

In its preliminary report, the Commonwealth observers criticised the electoral commission for its "lack of transparency". But also said that in the last weeks of the election it "made every effort to act impartially".

Testing times, Page 5

Jaguar

Continned from Page 1

Jaguar hrand image of not huilding the car in the UK would "depend on how good the vehicle is", said Mr Ross. "The ideal would he to huild it in the UK . . . hut you must get the same cost structure and quality in Europe and the UK."

Jaguar was studying the cost of importing parts from North America for assembly in the UK.

Iraq denies yielding to threats

Continned from Page 1

missiles and aircraft appear to have been withdrawn from bases close to the exclusion zone in the country's south, there was no precise word of their whereabouts.

The commander of the US naval flotilla now on patrol in the Gulf said Iraq could expect no more warnings if the no-fly zone was violated in future. Rear Admiral Phil Coady said that President Saddam Hussein "has had the only warning he's going to be given".

US officials have long been critical of what is known as the Iraqi policy of "cheat and retreat". Close aerial reconnaissance of Iraqi dafence deployments are likely to continue and there is no plan to order an early withdrawal from the Gulf of the US naval presence.

France may use force over Bosnia camps

Continned from Page 1

the Bosnian Serbs, intended to give the impression that they were prepared to accept compromise, proved unacceptahle to the Bosnian Moslems and the international mediators chairing the conference.

But the fact that the talks were resumed at all, after Friday's killing, came as a relief to Mr Vance and Lord Owen. Without giving any details, Mr Vance said last night that the Bosnian Serbs had apologised for the killing.

It was not until the last moment that President Alija Izetbegovic, the Bosnian president, let it be known that he would attend the talks, after reportedly having been persuaded to do so by French President François Mitterrand.

Mr Izetbegovic, who was due to attend the conference of the organisation of Islamic states in Dakar, left Geneva for the Senegalese capital in the afternoon, just as Mr Karadzic arrived. Mr Izetbegovic gave his foreign minister, Mr Haris Silajdzic, full powers to negotiate on his behalf in his absence.

Mr Vance and Lord Owen emphasised that Mr Izetbegovic's departure was not "a walk-out". They said he would be back in Geneva tonight and would attend the negotiations on Tuesday.

World Weather

		°C	°F
Ajaccio	S	14	57
Algiers	R	12	54
Amsterdam	R	12	54
Athens	C	8	46
Bahrain	C	18	64
Bangkok	F	–	–
Barcelona	S	13	55
Beijing	S	-1	30
Beirut		–	–
Belfast	F	7	45
Belgrade	S	2	36
Berlin	C	9	48
Biarritz	S	17	63
Bombay	S	29	84
Bordeaux	F	8	46

		°C	°F
Boulogne	R	12	54
Brussels	R	12	54
Budapest	Fg	-1	30
Buenos Aires		-	-
Cairo	F	14	57
Cape Town	F	22	72
Caracas		–	–
Casablanca	S	17	63
Chicago †	Sn	–	25
Cologne	C	11	52
Copenhagen	C	5	41
Corfu	S	14	57
Dallas †	C	-1	30
Dublin	C	10	50
Dubrovnik	S	14	57
Edinburgh	C	10	50
Faro	S	14	57
Florence	F	9	48

		°C	°F
Frankfurt	C	9	48
Geneva	F	5	41
Gibraltar	C	14	57
Glasgow	R	3	37
Helsinki	F	3	37
Hong Kong		–	–
Innsbruck	S	2	36
Inverness	R	5	4
Islamabad		–	–
Istanbul	F	6	43
Jakarta		–	–
Johannesburg	F	23	73
Lisbon	F	5	41
London	R	12	54
Los Angeles †	R	11	52
Luxembourg	F	8	46
Madeira	F	18	64
Madrid	S	4	39

		°C	°F
Majorca	C	13	55
Malaga	S	15	55
Malta	F	16	61
Manila		–	–
Melbourne	F	18	64
Mexico City		–	–
Miami †	F	21	70
Milan	C	6	43
Montreal †	C	-19	-2
Moscow	C	-2	28
Munich	S	11	52
Nairobi		–	–
Naples	C	14	57
Nassau		–	–
New Delhi	S	17	63
New York †	F	-4	25
Nice	S	13	55
Nicosia	C	11	52

		°C	°F
Oporto	C	10	50
Oslo	F	3	37
Paris	C	11	52
Prague	F	8	46
Reykjavik	F	-5	23
Rhodes	S	10	50
Rio d'Janeiro		–	–
Rome	F	11	52
Salzburg	S	8	46
S'Francisco	C	6	43
Seoul	S	3	37
Singapore	S	30	86
Stockholm	F	4	39
Strasbourg	F	11	52
Sydney	S	23	73
Taipei		-	-
Tangier	F	14	57
Tel Aviv	R	9	48

		°C	°F
Tenerife	S	18	64
Tokyo	F	7	37
Toronto †	C	-12	10
Tunis	S	16	61
Valencia	S	13	55
Venice	Fg	2	36
Vienna	Sg	4	39
Warsaw	C	5	41
Washington †	C	-1	30
Zurich	S	5	41

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

A glut of gilts

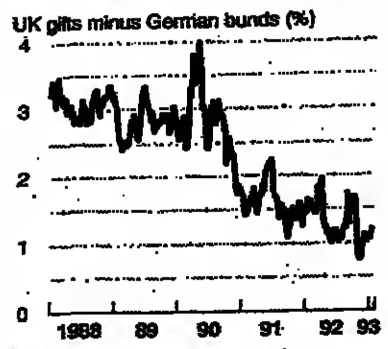
Despite the Bank of England's silence on Friday, the gilts market is hraced for an auction announcement this week. Favoured is a further issue of 8.5 per cent paper due 2007 which will become deliverable into the gilt future later this year. A partly-paid structure would also increase demand and, coincidentally, allow the government to tuck away funds for 1993-94 when it has to borrow £1bn a week. But it will take more than a little stocking up to satisfy that need.

Indeed, the authorities must already be examining a range of structures that might help tap particular pockets of cash. An obvious one is the convertible gilt. That would involve selling short term paper, convertible into long. Institutions with long-term investment horizons could then profit from any buoyancy at the short end of the market as European rates fall. Another candidate for revival is variable rate gilts - which might have special appeal to banks if the funding rules were changed. Or the Bank could borrow a Euromarket concept and issne gilts convertible into residual shares held hy the government in privatised companies. To attract overseas investors it could issue gilts redeemable in D-Marks at a guaranteed exchange rate.

Such innovations might give the impression of desperation. If they were tailored to satisfy genuine investor requirements, however, they might help at the margin. There is no single solution to the looming funding problem. The Bank may also have to act on the suggestion from Warburg Securities that it move to monthly auctions. Ultimately, however, meeting the borrowing requirement will depend on attracting overseas money. That will require a wider difference between gilt yields and German Bunds than the present 140 basis points. The question is whether this will he achieved through higher yields on gilts or lower ones on Bunds.

Medium term bond yields

UK gilts minus German bunds (%)



Source: Datastream

Wall Street

Tension in the Middle East may havs been a talking point in currency markets last week. But the wohble on Wall Street was due more to domestic factors: renewed worry about the size of the federal deficit and disappointing unemployment figures. With the signals from the incoming Clinton administration still confused, it is premature to draw firm policy conclusions, but the market response has at least underlined how dependent equities are on a healthy bond market.

The worry is that a weak recovery will force Mr Clinton to focus on fiscal pump priming rather than on deficit reduction. That would mean additional supply of Treasury honds in a market already weighed down by a glnt of corporate and supranational issues. Equities already look fully valned both in terms of a forward multiple of around 17 and a bond/dividend yield ratio of 2.6. Any increase in bond rates makes the forward multiple look expensive. Share prices have to adjust down even if earnings expectations stay the same.

Rohust economic recovery, of course, could cause the Fed to tighten. That would be a serious challenge for equities. But employment creation looks weak enough to delay such a move for several months. In any case it would take a large rate increase to enable money market funds to compete with equities again. Equities must hope for just enough recovery to keep the bond market happy.

French property

The comparison between the strains afflicting the French currency and property markets is inexact, bnt intriguing nonetheless. In both cases the French financial establishment has stepped in to prevent disorderly condnct. But while the franc last week seemed to bave scraped through the worst, the property market is running into real strains.

Paris rental valnes have dropped 20 per cent from their peak. About 300,000 square metres of office space will come on to the market this year while vacancy rates are climbing. Some 6 per cent of office space remains unlet. In some areas, such as La Défense, it may be twice that level.

Some developers are already squealing. Last week saw another, Pierre Premier, hand over most of its portfolio to the banks. The latter have tried to underpin the market hut bad debt provisions have mounted alarmingly. French banks are estimated to have a FFr400hn (£48.6hn) exposure to the property sector. Nearly a quarter of that lending must now be classified as doubtful.

But France's property troubles are not as bad as those that have beset the UK, US or Japan. High interest rates have choked off new development; over-supply is far less than in the UK; the underlying economy is stronger. And the French financial community has shown itself more sophisticated in defending an orderly market. The French property *crise* is still painful enough for those involved, but it is not so dire as to dampen the economic benefits of lower interest rates when they finally come.

Boots

Friday's trading statement from Boots has well and truly burst the enphoric hubble which had surrounded the stores sector. Weakness in the Do-It-All joint venture with WH Smith is perhaps not surprising. The chain is a weak third competitor in a market which has been riven by price wars and over-capacity. Perhaps the simplest solution would be for Do-it-All to withdraw. But markets rarely work so neatly and the optimism of both joint venturers bodes ill.

WH Smith ia likely to share in another of Boots' headaches. The Nintendo and Sega computer games craze has cannibalised many other areas of the childrens' present market this Christmas, with video and recorded mnsic sales notahly affected. The music husiness claims that the soggy trend in compact disc sales is due to a lack of new albums. But the expiry of singles and the high price of discs may be pricing the traditional teenage audience out of the market.

More generally, Boots' statement adds to the picture of a patchy Christmas. There was a late burst of spending for some retailers which carried over into the January sales. Yet strong January spending may not be a sign of retail health: it may only show that consumers held off before Christmas. The stores sector is at best sputtering into 1993 and it still has fully to face the challenge of rising import prices. Those retailers which source at home will have an edge this year.

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

TWA hopes to meet deadline

Trans World Airlines, the bankrupt and heavily-indebted US carrier, hopes to produce a reorganisation plan before February 17 – the extension date for a reorganisation plan filing requested from the bankruptcy court. This will be the next step in the carrier's attempted revival following the departure of Mr Carl Icahn, who on Friday formally resigned as chairman. Page 14

FNFC to make £50m cash call

First National Finance Corporation, the consumer credit group, is expected to ask its shareholders for up to £50m ($77m) in its first rights offering since 1986. Along with its annual results on Friday, FNFC is expected to announce that it will seek up to £50m through the sale of convertible preference shares in order to repair its balance sheet. Page 14

Legal tangle at Phar-mor

Phar-mor, the US discount drugstore operator, has seen a dramatic reversal of fortune. In August, it announced it was taking a $350m charge against earnings – the result, it claimed, of alleged fraud and embezzlement which had led to overstated earnings and inflated stocks. A reading of the various lawsuits shows how difficult disentangling the truth may prove to be. Page 14

French defence pays off

Since early November, the Bank of France has done everything it can to defend its currency, from spending heavily from its reserves, to last Tuesday's announcement that it was temporarily replacing the five to 10-day rate with a one-day facility at the higher rate of 12 per cent. Its strategy seems to have worked. "The second battle for the franc is over and the French authorities have won," said Mr Didier Maillard, chief economist at Banque Paribas in Paris. Page 16

Hectic start for US bonds

US bond markets began the new year on a hectic note. Within five trading days, a mood-swing had taken place. En route, near-record quantities of new corporate debt had been absorbed. On Thursday, $4.75bn-worth of new paper hit the market, bringing the new year's cumulative total to more than $11bn. Page 16

Investors to quiz Rank

The possible sale of Rank Organisation's film interests is likely to dominate investors' questions when the leisure and entertainment group announces annual results on Thursday. Page 14

Hanson in gold swap to expand coal interests

By Kenneth Gooding, Mining Correspondent

HANSON, the UK conglomerate, is understood to have arranged to swap its gold mining operations in the US for the coal business of Santa Fe Pacific, the railroads and minerals group.

The deal, estimated to involve assets worth $500m on each side, would consolidate Hanson's position as the world's second-largest privately-owned coal producer and place Santa Fa among the top 10 North American gold producers.

The companies' proposals are being studied by the US Internal Revenue Service, because of the swap's tax-free status, the Securities and Exchange Commission and possibly the anti-trust authorities.

Hanson hopes to acquire Santa Fe's 720m tonnes of coal reserves and the Lee Ranch mine in New Mexico which produces about 4m tonnes a year and supplies two big electricity producers in the south-west US.

In return, Santa Fe, best known for its 132-year-old Atchison, Topeka and Santa Fe railroad, would take Gold Fields Mining Corporation. One of GFMC's two mines, Chimney Creek in Nevada, adjoins Santa Fe's Rabbit Creek mine and together they would lend themselves to a "superpit" development.

In the year to end-September, Chimney Creek and GFMC's Mesquite mine in California, together produced a record 431,000 troy ounces of gold and have proven reserves of 7.5m ounces. Cash production costs at the GFMC mines are among the lowest in the industry at $108m an ounce.

Santa Fe owns three gold mines in Nevada, producing more than 300,000 ounces annually, and recently indicated it would consider spinning off its minerals business. In 1990 the group spun off its energy and property interests.

Hanson acquired GFMC in August 1989 when it took over Consolidated Gold Fields, the UK-based group, for $3.5bn and the gold company has been up for sale since then. During the Gold Fields bid battle GFMC was valued at more than $1.1bn. Industry sources suggest GFMC is now being valued at $500m.

Hanson's foray into US coal began with the Gold Fields acquisition. This also brought with it a 49 per cent stake in Newmont Mining which partly owned Peabody Coal, the second-largest US producer. Hanson took full control of Peabody for $715m early in 1990 and at the time Lord White, chairman of the group's US operations, suggested coal would continue to be an important long-term source of energy in the US and that new technologies would increase its afficiency as a low-cost fuel.

Coal is now Hanson's fastest-growing business and accounts for more than 30 per cent of the group's capital employed.

Paul Abrahams on the forays by bulk chemical groups into the speciality market

An experiment to find a panacea for recession

The arrival last week of Laporte, the UK's largest speciality chemical group, in the takeover battle for Evode, one its brethren, has cast an unaccustomed light on the speciality chemicals sector.

During the mid-1980s speciality chemicals groups became highly fashionable. In the previous recession, European and North American commodity groups had enviously eyed the performance of speciality groups.

The concept behind speciality chemicals is quite simple, says Mr Ken Minton, Laporte chief executive. Whereas commodity chemicals are sold on price alone, specialities are sold for other considerations. The business differs from bulk chemicals because it is research-orientated, changing the product to meet the customer's need.

With the advantage of low capital investment, higher than average growth rates and profits, apeciality gronps appeared inoculated against aconomic downturns. Imperial Chemical Industries, tha international chemicals group, created a specialities division after estimating that in Europe and the US, the average return (operating profits as a percentage of average total assets) of apeciality operations fell from 20 per cent in 1980 to 13 per cent in 1983. Those of bulk businesses dropped from 10 per cent to 2 per cent over the same period.

The theory was that the European and North American commodity groups could acquire these speciality groups to offset the worst effects economic downturns. "Virtually without exception, the commodities groups saw specialities as a panacea. During tha mid-1980s, they launched themselves lemming-like into the sector," says Ms Hilfra Tandy, editor of Chemical Matters, an industry newsletter.

So much for the theory. During this recession, the reality has been rather different. Expectations among the large chemical groups that their speciality chemicals operations would balance the effects of cyclical commodity downturns have largely been dashed. While most small speciality gronps have continned to prosper during the recession, the speciality divisions of most larga chemicals combines have performed poorly. "To be frank, the specialities experiment has been a disaster," says Mr Stuart Wamsley, editor of Focus on Chemicals, an industry newsletter.

Take, for example, the operating margins of ICI's speciality chemicals division which fell from 9.3 per cent in 1989 to an estimated 3.8 per cent last year. The division is expected to be in loss in the fourth quarter of 1992. Meanwhile, in France, Rhône-Poulenc's speciality division had operating margins of 5 per cent in 1989, was in loss the following year, and generated margins of only 0.6 per cent in 1991. Its results are expected to have improved during 1992.

The poor results of the large groups compare with margins of 14 per cent last year at Laporte and 16.3 per cent at Allied Colloids, another UK speciality group.

Such comparisons are not totally fair. Defining a speciality chemical business is not easy. What might be defined as a speciality by ICI, could be interpreted as a commodity chemical by Allied Colloids. Moreover, different speciality operations offer varying margins. However, it is true to say that speciality chemicals businesses have fared better in small rather than large companies.

One the reasons for the relative failure of the large groups is their inability to appreciate the cultural differences between commodity and speciality chemicals.

"A speciality customer is prepared to pay more because the supplier has a monopoly, or has a better product, or his salesmanship is better. A bulk chemical manufacturer is obsessed by production – cutting costs to improve margins. But for specialities, marketing becomes far more important than production chemistry," explains Mr Minton.

The key to marketing is to produce small batches of products specifically designed for the customer. The effect, according to Mr Minton, is that the customer is prepared to pay a premium for the tailored product.

Mr Minton claims most large groups failed to understand this when they acquired their speciality groups. This reduced the speciality businesses' ability to react quickly to market demands.

Mr Wamsley gives the example of the respective polyacrylamide businesses of Dow, the US giant, and Allied Colloids. He says during the mid-1980s Allied Colloids was generating 20 per cent growth a year and enjoyed high margins while Dow, Allied's main competitor, wes losing money. "Dow just couldn't compete. Allied was fast, flexible and customer-orientated. It was devising products for the customer. Dow had a range of products which it then sold. What's more it didn't provide the same levels of service," says Mr Wamsley.

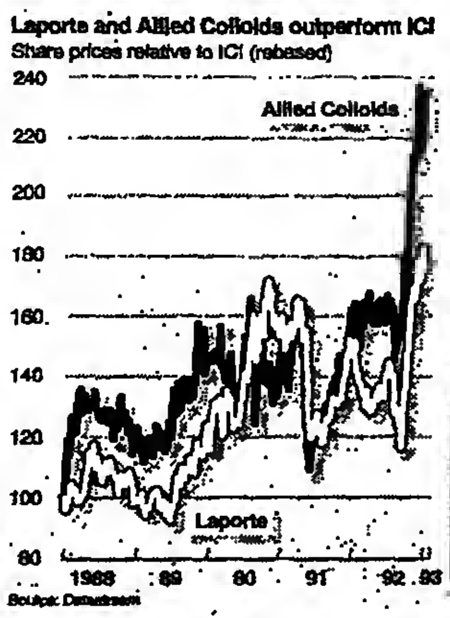
The bulk companies were not discriminating when making acquisitions. "The hulk chemicals groups were so large that they had to acquire large numbers of these small niche companies to make any difference to their overall performance. In the rush to acquire, some businesses were not well understood – some were rash," says Mr Michael Bennett, director at consultants Arthur D Little.

According to Mr Wamsley, some groups have decided the impact of specialities was negligible and could not justify the time, effort and costs involved in running them. For example, Union Carbide, the US giant, has disposed of most of its non-bulk activities. The proposed split of ICI into two groups, Zeneca with the pharmaceuticals, agrochemicals and specialities operations, and the rump keeping the bulk chemicals business, is part of the trend.

Not all believe the 1980s speciality strategy was mistaken. Ms Jackie Ashurst, European chemicals analyst at broker James Capel, says investors and the companies themselves may have been too impatient. Building up speciality businesses requires research and development effort as well as time. Although they have not proved successful in this recession, non-bulk chemicals may well triumph during the next downturn.

Speciality chemical producers

Laporte and Allied Colloids outperform ICI
Share prices relative to ICI (rebased)



Source: Datastream

Speciality chemical operating margins (%)

	1987	88	89	90	91	92*
ICI	9.6	8.6	9.3	4.1	3.9	3.8
Laporte	10.9	13.3	14.3	15.6	14.0	14.2
Allied Colloids	21.4	19.1	16.0	16.3	16.3	17.2

Allied Colloids financial year-end is March of the following year. Laporte and ICI have calendar year-ends. * forecast

Trafalgar House wins £100m US contract

By Andrew Baxter in London

TRAFALGAR HOUSE, the construction, engineering and shipping group, has won a contract worth more than £100m ($154m) to build a coking plant for Bethlehem Steel in the US.

The deal, won against stiff competition from US and German rivals, is the second biggest contract won by Trafalgar House since its takeover of Davy, the process plant contractor, in 1991.

It comes five weeks after Trafalgar House reported a pre-tax loss of £30.3m for the year ended September 30 after exceptional property write-downs.

Trafalgar House, which holds its annual meeting today, has stressed the benefits of acquiring a new "leg" through Davy's metals and minerals plant contracting expertise.

Early last year, it won a £140m contract for an aluminium strip plant in Egypt. The latest deal, won by Davy International, is a turnkey contract to rebuild Bethlehem's number two coke oven battery at its Burns Harbor, Indiana works.

Mr Ian Robinson, chairman of Trafalgar House engineering division, said Bethlehem's investment showed its commitment to maintain its position as one of the leading integrated steel producers in the US.

The outlook for steel plant contractors in the US was beginning to improve after e period where clients had been cutting back or delaying investments, be said.

The plant is dne for completion in early 1995, and will comply with the 1991 US Clean Air Act. Coking, where coal is turned into metallurgical coke for use in the blast furnace, is one of the most environmentally sensitive stages of the steelmaking process.

The burden of Germany's reserve currency status

Economics Notebook
By David Marsh

During the post-war decades, as West Germany recovered its economic and financial strength, the Bundeshenk withstood use of the D-Mark as a reserve currency.

The monetary conservatives at the Bundesbank's belm believed an overbang of foreign-held D-Marks would be a dangerous hurden, liable to depress the currency at times of political or economic tension.

The aversion of people like Mr Otmar Emminger, Bundesbank president in 1977-79, was strengthened hy observation of the painful dismantling of sterling's reserve currency role in the 1960s and 1970s. Then at the beginning of the 1980s Germans discovered that widespread resarva use of the D-Mark was impossible to prevent and could bring benefits.

The D-Mark's international status grew during the 1980s in line with its fundamental strength. Now German economic performance is being dented by the effects of reunification.

Germany's inflation rate is the sixth highest of Europe's 18 industrialised economies. Its current account has tipped into the red and the deficit is expected to persist, at least into 1994.

As a result of the deterioration in parts of the German economy, some of the disadvantages of reserve currency status feared by Mr Emminger are coming to the fore.

Nervousness about whether foreign D-Mark investors will maintain their holdings provide one reeson why the D-Mark may be relatively weak in coming months.

The D-Mark has fallan against the dollar since Governor Bill Clinton's US election victory in November. This reflected foreign exchanges' belief that Mr Clinton will preside over a US recovery. The D-Mark/dollar move repeats the pattern of tha previous two US presidential elections (see chart). This time the effect could be more permanent.

Much attention focused last week on the Bundesbank's cut in interest rates, when it lowered its money market rate by just 0.15 percentage points. The Bundesbank's decision to leave discount and Lombard rates unchanged was primarily due to concern about inflationary pressures caused hy the German budget deficit.

But the Bundesbank's centiion may also reflect worries that faster credit easing would expose the D-Mark to greater risk of further decline against the dollar.

Up to now, the D-Mark's international status has heen a source of strength. According to the Bundesbank's figures for end-1991, official D-Mark assets amount to ahont DM280bn ($141bn), 18 per cent of world currency reserves. Foreigners' holdings of the German currency are well over DM1,000bn.

Since unification in October 1990, the D-Mark's reserve currency status has proved a considerable benefit. Germany has claimed the traditional reserve currency privilege: it has paid its bills in its own currency, without repercussions on the exchange rate.

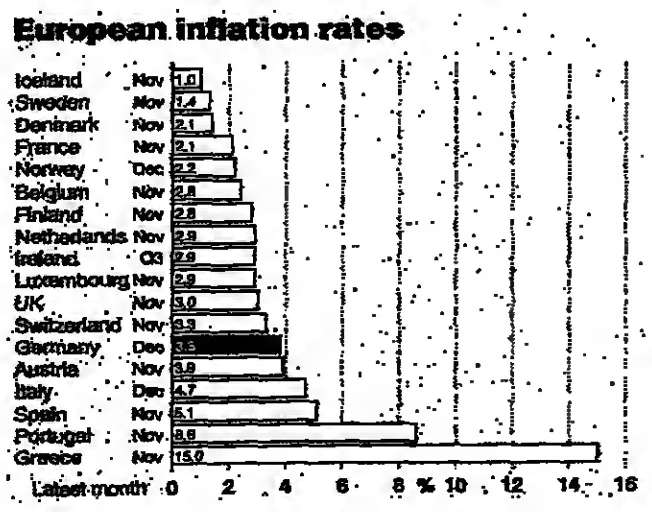
At the end of last year, Mr Helmut Schlesinger, Eundesbank president, acknowledged the advantages of the D-Mark's international use. But be also made clear that, given the volume of D-Marks held abroad, Germany would face risks if foreigners ever feared that Germany was departing from sound money principles.

Tha scale of these potential pitfalls is illustrated by Bundesbank figures for Germany's overall foreign assets and liahilities. Germany expanded its net foreign assets from DM373bn at end-1988 to a peak DM564hn in June 1991. The onset of current account deficits reduced the net asset position by DM54bn during the 12 months to June 1992.

Overall, Germany's international financial position remains strong. But it will be undermined unless Germany reverses the swing to current account deficit. And this might make foreign D-Mark investors prone to sell their holdings.

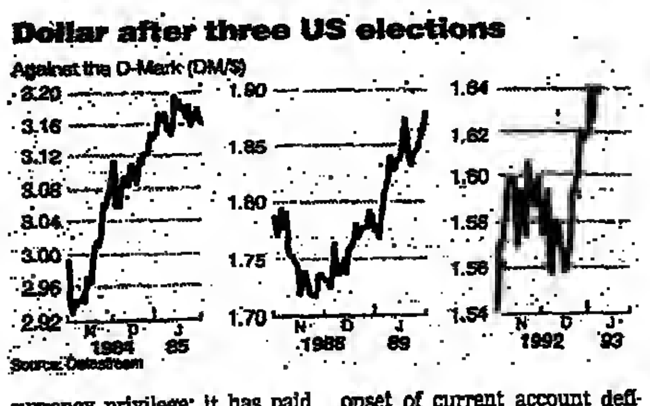
Mr Schlesinger has not forgotten the forebodings of Mr Emminger. In coming months, Mr Schlesinger will not make much explicit reference to the holders of the DM1,000bn worth of D-Mark assets abroad. But they will be at the forefront of his mind. And he will do his best to ensure they do not move back into the dollar.

European inflation rates



Dollar after three US elections

Against the D-Mark (DM/$)



Source: Datastream

Total to sell Canadian subsidiary for C$180m

By Bernard Simon in Toronto

TOTAL, the French energy group, is withdrawing from Canada as part of moves to sharpen the focus of its international operations.

Total will receive abont C$180m (US$141m) from the sale of its 53 per cent stake in Total Canada Oil and Gas of Calgary. It has sold its 18.8m shares to an underwriting syndicate led hy Nesbitt Thomson, a Canadian hroking company, for C$9.75 e share. The shares are expected to be widely distributed.

Total is concentrating its international efforts on oil and gas properties in Colombia and Indonesia. and has recently been granted concessions in Burma and Algeria.

Total will make a profit from the sale of its Canadian subsidiary, which was spun off from Colorado-based Total Pstroleum North America in mid-1991 at C$5.75 e share.

Total Canada's business centres on exploration and crude oil and gas production, while Total Petroleum's focus is downstream refining and distribution. The Canadian company's investment rating has benefited from exploration programmes.

Total Canada earned C$6.1m in the first nine months of last year on net revenues of C$57.7m. Crude oil and condensate production averaged 6,781 barrels a day, while natural gas sales averaged 62.9m cubic feet a day.

Other international energy gronps, inclnding BP of Britain, have rednced their exposure in Canada in the past year or two.

Troubled group will move to repair balance sheet

FNFC to make £50m cash call this week

By Norma Cohen, Investments Correspondent

TROUBLED First Nationsl Finance Corporation, the consumer credit group, is expected to ask its shareholders for up to £50m in its first rights offering since 1986.

Along with its annual results ou Friday, FNFC is expected to announce that it will seek up to £50m through the sale of convertible preference shares in order to repair its balance sheet.

In the six months to last April, the group had total charges for had dehts of £64.5m, and incurred a net loss for the period of £23m. It also took an exceptional charge of £17m related to the sale of undeveloped property sites.

The group, whose short term horrowings rose significantly in 1991, also faces the repayment of some £250m in bank loans this spring.

However, the loss for the second half is expected to shrink significantly to under £10m. Profitsbility has been aided by the sharp drop in base rates in recent months snd the fact that its loan agreements do not require it to pass on all of those savings to customers.

Also, it hss psred roughly £400m from the group balance sheet through securitisation and sale of loans. In October, FNFC raised £190m when it became the first issuer to sell securities backed by secondary mortgage loans.

Its loan book at the end of December was £900m, down from £1.3bn the year before. The company has said thst most of its troubled loans stemmed from aggressive business it took on in the late 1980's which has been largely repaid or written off. About half of all new business is in the form of home improvement loans and about a third are secondary mortgages.

The company's share price has risen steadily, rising from a 1992 low of 13p to 60p on Friday.

Rank faces questions over film interests

By Peggy Hollinger and Ray Snoddy

THE possible sale of Rank Organisation's film interests is likely to dominate investors' qnestions when the leisure and sntertainment gronp announces annual results on Thursdey.

Analysts are expecting the heavily indebted company to report pre-tax profits of between £233m and £245m, against £254m last time.

Rank refused to comment on weekend speculation of an offer from a consortinm involving Mr Michael Grade, chief executive of Channel 4.

It is understood that no formal approach has been made, while Mr Michsel Gifford, Rank's chief exective, has stressed the business has not actively heen pnt np for sale.

However, Mr Grade has confirmed that he is in contact with an unnamed hidder for Rank's film bnsiness. The potential hidder, believed to be a consortium of investors, is heing advised hy Chemical Bank. Mr Grade has said he would be prepared to be a non-exectitive director of the Rank Organisation's film and cinema business if it is sold.

Rank is in the process of trying to reduce its almost £1hn debt through disposals of assets snch as hotels. To date, it has sold just four of the 22 hotels earmarked for disposal, raising abont £88m. In December 1991 Rank sold its motorway services arm for £90m. The debt was largely the result of the Mecca takeover in 1990.

The film interests, which inclnde the Odeon cinema chain and Pinetree Stodios, are believed not to be considered core assets.

Reversal of fortune at Phar-Mor

Nikki Tait on the web of litigation around the US discount drugstore

THE holiday tinsel has been stashed away and many remnants of the old year consigned to the rubhish-bin. But some of 1992's dehris will take longer to bury.

The scandal at Phar-Mor, one of the more colourful US business stories in 1992, is a case in point. Last August, this "deep discount" drugstore operator snnounced it was taking a $350m charge against earnings – the result, it claimed, of an alleged fraud snd embezzlement scheme which had led to overstated earnings and inflated stocks. Within weeks, the Ohio-based retailer plunged from fast track to bankruptcy.

Not surprisingly, the sudden reversal of fortune created a trail of litigation and losses. Even now, as legal processes start grinding, some big names – including Coopers & Lybrand, the accountancy firm, Lazard Frères' Corporate Partners investment operation and National Westminster Bank of the UK – are still totting up the damage.

At the centre of the Phar-Mor dehacle is Mr Michael Monus, a businessman in his 40s whose family has run retail interests from Youngstown, a depressed former steel town, for years. Mr Monus is, hy all accounts, something of a local character; aside from co-founding Phar-Mor, his notoriety stems from a burgeoning sports empire, a messy divorce, and a "fast lane" life-style.

Phar-Mor was born in the early-1980s after Giant Eagle, a Pittshurgh-based grocery chain, bought out the Monus family grocery husiness, and contacts between Mr Monns and Mr David Shapira, head of Giant Eagle, prompted them to go into business together. The Phar-Mor strategy was reportedly based on a deep-discount operation in Cleveland which they had visited together.

Phar-Mor quickly won a reputation for striking hard bargains with suppliers, and seemed to prosper. Within a decade, annual sales had risen to $3bn, and the chain had grown to more than 300 ontlets.

On the bsck of such prosperity, Mr Monus – whose lawyers did not return calls – gave full rein to his private interests. He became the owner of "Youngstown Pride", a "World Basketball League" franchise operating as a second-tier, professional organisation for players under 6ft 7in tall. He also planned to become a big investor in the Colorado Rockies, one of baseball's two expansion franchises which start playing this year.

Ironically, it was the sports ties which became the catalyst of Phar-Mor's downfall – at least according to a lswsuit filed hy Coopers & Lybrand, Phar-Mor's acconntants. It claims to have first learnt of the alleged improprieties when asked to investigate "certain cheques paid to a travel agent by Strouss Building Associates, a Phar-Mor related partnership, for expenses incurred by the World Basketball League".

This probe, the suit continnes, eventually revealed that millions of dollars had heen diverted from Phar-Mor into the league. C&L also says that it was told by one of Phar-Mor's accountants of "hidden books".

Inevitably, how the alleged scam worked, and who was responsible for it, is a matter of intense legal dispute. Phar-Mor, which filed for Chapter 11 hankruptcy protection within weeks of the $350m write-off announcement, has sued C&L for negligence. In turn, C&L has sued Mr Shapira, Mr Monus, and various other employees of Phar-Mor and its related companies. Mr Monus and Mr Patrick Finn, Phar-Mor's chief financial officer were fired almost immediately, and Mr Monus has since filed for personal bankruptcy.

That is only the beginning. According to one lawyer involved in the affair, there are More than s dozen lawsuits outstanding. These include a class action filed by the unquoted retailer's sharehold-ers, and about five actions against NatWest and its County NatWest Securities arm in the US, which handled a private placement of Phar-Mor shares.

Among the plaintiffs are two hig mutual fund operators – T. Rowe Price and Massachusetts Financial Services – which allege NatWest/County misled investors about Phar-Mor's financial condition.

The various lawsuits make clear how difficult untangling the truth may prove to be. The Phar-Mor suit, for instance, blames Mr Monus, with collusion from Mr Finn, and suggests that C&L – which issued clean audit reports in 1989, 1990 and 1991 – was negligent in uncovering sizeable sccounting irregularities.

C&L's own suit is more detailed. As hackground, it claims that Mr Shapira and Mr Monus ran Phar-Mor "as s personal fiefdom". They were involved, for example, in a numher of joint ventures or partnerships which leased stores, store fixtures and equipment to Phar-Mor. Various professional or supplier companies run by their relatives also worked for Phar-Mor.

As to the alleged overstatements of the company's financial position, C&L maintains that it uncovered evidence of stock shortages during the 1988 audit. This, it claimed, was the result of "short" shipments from a Giant Eagle distribution subsidiary. However, a promised improvement in stock control methods was then delayed for a variety of reasons – including, for example, the employment of outside consultants to assess the situation.

The suit also notes that Mr Monus and Mr Shapira called in reputable inventory consultants to count stocks at every store twice a year, on a rotating hasis. The consultants' reports showed no problems. And the C&L suit claims that stock levels were fictitiously inflated at each of the stores, except those which C&L itself was testing.

Whatever the truth of the claims and counter-claims, there is no doubt that some prestigious players in the financial community have had their fingers hadly hurnt. Phar-Mor was nsver quoted, but did place shares privatsly.

In June 1991, for example, Corporate Partners – the investment partnership run by Lazard Frères – put $200m into Phar-Mor, in return for a 17 per cent equity stake. Westinghouse Electric Corporstion was another victim, taking a $100m write-off on its Phar-Mor investment last October. So were the mutual fund investors, and so – indirectly – was NatWest/County, which claims that the allegations against it are "completely without merit".

Are there any lessons to be learnt from the affair? The legal processes are only just getting under way, but Phar-Mor may again focus attention on how audits are condncted.

Secondly, the willingness of investors to pour money into a discount retailer may indicate a general eagerness to unearth a second Wal-Mart – the Arkansas-hased company which grew from one "five-and-dime" store to hecome the nation's largest retailer, making a lot of shareholders very rich. The story, alas, is rather different this time.

Nestlé Merseyside package

By Peggy Hnllinger

DETAILS HAVE emerged of the offer hy Nestlé, the Swiss foods conglomerate, to assist in the formation of an ice-cream company to be owned by former Clarke Foods employees in Kirkby, Merseyside.

Nestlé confirmed that it had offered production eqnipment snd storage facilities worth about £500,000 to get former employees at the Kirkhy factory started in an own-label ice lolly manufacturing husiness. The foods group will also contribute to overheads such as security and electricity until the end of Fehruary.

One of the workers said the equipment offered hy Nestlé was not "state of the srt" although it was in good running order.

At its peak, the Kirkhy factory had been capable of producing up to 40,000 ice lollies an hour. The equipment left hy Nestlé would allow output of 25,000 per hour, he said.

The proposed venture had already received "significant interest" in the placing an order from one of the site's former customers, a leading supermarket chain.

Nestlé acquired the equipment when it hought most of Clarke Foods' assets following the company's collapse in October last yesr. The 67 employees at the Kirkby site, made redundant hy the receiver before Nestlé moved in, had staged a sit-in at the factory during December in an attempt to persuade the conglomerate to keep the factory open.

The deal is contingent on the completion of a business plan and the arrangement of financing for the proposed venture. Nestlé hss offered £2,500 towards the costs of devising the husiness plan, with the balance likely to be paid hy the Department of Trade and Industry.

The representative of the Kirkhy employees said some form of Employee Share Ownership Plan was heing discussed to arrange initial financing for the new husiness. Meetings had been set up with financial institutions this week to discuss working capital finance. The venture is also receiving significant support from the Knowsley council, which owns the freehold on the site and has set up similar employee co-operatives.

Mr Brian Revell, of the Transport and General Workers Union, welcomed the offer from Nestlé: "They are taking account of their social ohligations to the workers in Kirkhy, which is one of the worst unemployment black spots in the country."

BP looks set to achieve $1.5bn disposal target

By Antonia Sharpe

BRITISH Petroleum already appears to be more than half way to achieving its 1993 target of raising $1.5bn (£1bn) through sales of non-core assets.

The UK oil company is believed to have reaped $1.7bn from similar disposals in 1992, slightly ahead of its target for last year of $1.5bn.

The cash raised will be used to reduce the group's borrowings of around $16bn. Gearing at the 1992 year end is expected to be over 90 per cent. BP cut its dividend last year and announced it would shed 20,500 jobs around the world by 1995 in a drive to reduce costs.

The group has received indicative bids in the region of £200m-£250m for its consumer products division, of which the main part is the Manchester-bssed Robert McBride. The division, which has annual sales of around £300m, is part of BP Nutrition which BP put on the block last year.

SG Warburg is compiling a shortlist of bidders, believed to include several financial institutions. However, completion of this transaction is still a couple of months away.

The first sale to be completed this year is likely to be that of BP's consumer food group to Sara Lee, the US textiles, food and consumer products company, for about £70m.

This disposal is expected to be followed by the completion of the $456m sale of BP's 49 per cent holding in the Olympic Dam mine in southern Australia to Minorco, the overseas investment arm of the Anglo American Corporation-De Beers group of Sonth Africa. Both of these deals were agreed last November.

Aberdeen Petroleum faces an uphill struggle

By Peggy Hollinger

ABERDEEN Petroleum, the US-based oil and gas company, faces an uphill struggle in its attempt at a friendly merger with Brabant Resources, the North Sea exploration group.

Large shareholders expressed scepticism last week over the approach by Aberdeen. "At the moment we have not got a firm proposal," said one shareholder. "We have only got an idea."

Aberdeen admitted that it had not yet presented any terms or conditions of any potential merger. It is likely, however, that any offer would be made purely with shares. On Friday, Aberdeen's shares closed steady at 8¼p while Brabant's were firm at 27p.

Both companies have proved disspointing for investors since coming to the USM in the late 1980s. Aberdeen's share price has fallen from an early peak of 34p, while the shares of Brabant have declined from a high of 160p in its first few weeks of quotation. They each had a market value of less than £5m last week.

Although there is widespread sympathy for consolidation of the vast number of oil and gas stocks which are too small to raise any useful finance, investors said they would prefer to see a merger of more similar companies.

One investor said: "It would be more sensible to have the merger of companies operating in similar areas." However, he added: "There is a case for companies to start getting together and ... it pays to do it at the beginning rather than at the end."

Other investors said they were not averse to a merger for Brabant, although they would prefer it to he with another exploration company.

Aherdeen, which itself has been the subject of takeover speculation, rejected the criticisms of its choice for merger.

Savoy MD dismisses talk of fresh Forte bid

By Peggy Hollinger in London

MR GILES Shepard, managing director of The Savoy Hotel, yesterday dismissed speculation of a renewed bid from the Forte group following reports that his board could not rely on the support of a key investor in any takeover battle.

"What has been said does not alter anything one iota," Mr Shepard said yesterday, in response to to reports that a trustee of the Swiss-based Fondation Pour la Formation Hotelière, which controls 5.7 per cent of the Savoy's voting shares, had insisted decisions msde by the trust could not be "based oo loyalties and personal friendships".

"A trustee has to say he will do what is in the best interests of the trust," Mr Shepard said.

In 1989, Forte – which holds 42.5 per cent of the Savoy votes – agreed not to huy Savoy shares for five years and promised to give a year's notice of any bid, in return for a seat on the board.

However, recent events may encourage Forte, which attempted to take over the botel in 1981, to rethink its contract. The death of tbe Savoy's chairman, Sir Hugh Wontner, in November was followed by the collapse of St Anselm, the property company, which owned 4.29 per cent of Savoy voting shares. These are now with receivers Cork Gully, and could be np for sale.

IBM boosts management team

By Louise Kehoe in San Francisco

INTERNATIONAL Business Mschines, the troubled US computer maker, has moved to strengthen its management by appointing three extra members to its main executive committee. This brings to six the number of executives in the group's top management team, which reports directly to IBM's board, and provides more direct representation for several of its business units.

Joining the committee are Mr Robert LaBant, Mr Ned Lautenbach and Mr Patrick Toole. The existing members are Mr John Akers, chairman and chief executive, Mr Jack Kuehler, president, and Mr Frank Metz, chief financial officer, on the committee

The expansion of the committee is the latest move in a broad restructuring of IBM's operations. The appointments also fuel speculation as to who may succeed Mr Akers as chairman, if he retires as expected at the end of next year. Mr LaBant is among the favourites for the top job, according to IBM insiders.

Patrick Toole: joins main executive committee

Mr LaBant is a senior vice-president and general manager of IBM North America. Mr Toole, also an IBM senior vice-president, is in charge of manufacturing and development. Mr Toole oversees IBM's mainframe computer, data storage, networking, printer and software operations.

Mr Lautenbach, IBM senior vice-president will take on a newly-created role as the contact executive at IBM headquarters for IBM World Trade, the company's international marketing and sales operations. He was formerly president of IBM Asia Pacific. He has been replaced in that post hy Mr Robert Stephenson, also an IBM vice-president.

French group launches direct insurance in the UK

By Norma Cohen, Investments Cnrrespondent

GROUPE GAN, the French-based insurance and banking company, will today launch a new direct insursnce service into the UK market.

The new company, to he called Touchline, is part of a growing push into the so-called direct line insurance husiness whicb allows consumers to hypass hroker intermediaries by contacting the insurer directly.

The French company's move follows on the success of Bank of Scotland's Direct Line subsidiary which pioneered telephone selling of personal insurance in 1985.

Direct selling of personal husiness, such as motor and household insurance, now accounts for around 10 per cent of the £10hn UK market.

Some 15 per cent of motor insurance alone is controlled hy the direct writers – a third of that is Direct Line – and insurance industry analysts expect that to rise to 25 to 30 per cent of the motor insurance market by the end of the decade.

Groupe Gan said its new subsidiary would concentrate on selling motor insurance and in the near future would introduce household and other personal insurance lines.

The company hecomes the second major European insurer to hreak into the UK's direct insurance market in the past year.

Most recently, Swiss-based Winterthur, through its UK subsidiary, Churchill, announced its own direct insurance business.

NEWS DIGEST

Union Square cuts losses to £483,000

UNION SQUARE, which hss disposed of s significant part of its property portfolio in order to reduce debt, cut its losses from £10.48m to £483,000 pre-tax for the year to end-March 1992.

Net interest charges fell to £1.33m (£4.41m) and exceptional provisions were cut to £315,000 (£5.22m). However, extraordinary charges rose to £4.98m (£3.78m). Losses per share worked through 0.43p (15.6p).

The directors said it had not been possible to conclude discussions with the company's main bankers with a view to renewing existing facilities and securing medium term financing prior to announcing the preliminary figures.

Tbey warned that the group's future prospects were dependent on the ontcome of the talks hut remained hopeful that sgreement would be reached in the "not too distant" future.

The results for the year were prepared on a going concern hssis and accordingly, the auditors' report csrries an appropriate qualification.

Union Square's shares are traded on tbe USM. Its ultimste holding company is Thompson Investments.

Universal Building Society improves

Universal Building Society, based in Newcastle, achieved a 20 per ceot improvement in 1992 net profits to £1.25m while assets at year-end of £173m represented growth of 10 per cent.

The society lent some £25m in "exceedingly difficult" market conditions. It also improved its capital base in terms of both reserves and gross capital.

Increased deficit at Torex Hire

Losses at Torex Hire, the USM-quoted group with interests in the hire of tools, small plant and catering equipment, rose from £216,000 to £335,000 for the year to end-October.

The second half deficit of £45,000 (profits £12,000) was struck after taking account of redundancy costs of £47,000. Full year turnover was static at £4.21m (£4.42m).

The dividend for the year is maintained at 0.4p. Losses per share emerged at 2.09p (1.16p).

Cockerill sees steel side loss

THE steel-making activities of Cockerill Sambre, the Belgian steel-based group, are likely to make a loss in 1993, said Mr Jesn Gandois, chairman, writes Andrew Hill.

Mr Gandois said the recession had deepened since October, but the company's cash reserves meant it was well-plsced to resist the downturn.

TWA hopes to meet deadline

By Nikki Tait in New York

TRANS World Airlines, the bankrupt and heavily-indebted US carrier, hopes to be able to produce a reorganisation plan before February 17 – the extension date for a reorganisation plan filing requested from the bankruptcy court.

This will be the next step in the carrier's attempted revival, following the departure on Friday of Mr Carl Icahn, the one-time corporate raider who gained control of TWA in 1986.

Mr Icabn agreed to relinquish all interest and control in the airline last year, as part of a complex pact between TWA's unions, creditors and the federal agency which ultimately underpins the airline's underfunded pension plans.

On Friday, he formally resigned as chairman, placing his stock in escrow. Remaining members of TWA's hoard – four people, including Mr Icahn – also resigned.

Under the envisaged reorganisation plan, creditors will hold 55 per cent of the restructured airline's shares and labour representatives, the remaining 45 per cent. Until that plan is approved hy the hankruptcy court, ultimate responsihility for running the airline rests with a two-man mangement committee, appointed by unions and creditors, hut a new board will be formed after reorganisation.

Although Mr Icahn took large share stakes in many companies during the 1980s, TWA is one of the few that he ended up owning. He more than recouped the cost of his TWA share stake purchase when he conducted a leveraged hny-out of the airline, with financing from Drexel Burnham Lambert. However, the heavy deht hurden assumed by the carrier, coupled with the tough airline industry climate, has caused TWA to make large losses throughout the 1990s.

Renault plans stake in Czech bus group

RENAULT, the French state-owned vehicle group, plans to take a 34 per cent stake in Karosa, the biggest Czech hus maker, Renter reports from Prague.

Mr Miroslav Haueer, a Karosa executive said: "Renault is very much interested and we have jointly prepared a privatisation project which is up for approval in late January." Mr Pavel Stejskal, head of the Czech privatisation ministry's general engineering division, said approval would pave the way for a joint venture with Karosa's main plant in Vysoke Myto.

Renault has agreed to pay Kcs231m ($8.25m) within 30 days of s contract being signed and is willing to invest a further $8.25m within three years to acquire a majority stake.

Before the fall of communism in 1989, Ksrosa was Czechoslovakia's sole large bus and coach manufacturer.

● Renault and Volvo, the Swedish vehicle maker, are to expand co-operation in the German car market to maximise advantages of the alliance between the two groups, Reuter adds from Bonn.

ASC reviews Fletcher insider probe result

By Kavin Brown in Sydney

THE Australian Securities Commission (ASC), the federal corporste watchdog, is considering the results of an insider trading inquiry into Fletcher Challenge, the New Zealand conglomerate.

The investigation follows volatility in Fletcher's share price between June end Decemher, which coincided with tbe disposal of more than NZ$1bn (US$510m) of assets.

The investigation was initiated hy the Australian Stock Exchsnge (ASX) and carried out in conjunction with the New Zealand Stock Exchange and the corporste regulatory authorities in Wellington.

The ASX said the report was a "routine" result of its normal monitoring of share price movements.

Fletcher Challenge said it was confident no hreaches of securities legislation had occurred. All asset dispossls had been widely publicised in advance, and the market had been kept informed. Fletcher put a large number of assets up for sale in mid-year after its shares came under selling pressure, mainly because of investors' concerns about its operational performance and high level of debt.

Asset disposals included the Rural Bank, sold to the National Bank of New Zealand for NZ$450m, and a stake in the NZ Natural Gas Corporation, sold for NZ$305m.

Fletcher shares fell to a record low of A$1.24 in Sydney on November 20, but recovered to A$1.68 on November 30, one day after news of the Rural Bank sale.

In October, Mr Hugh Fletcher, managing director, suggested the low share price could lead to a takeover. "I would not be surprised if some corporate started buying the company; there are billions to be made in huying Fletcher Challenge at this level."

Fletcher said it had no plans to set np an internal inquiry into the asset sales.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Consortium (UK)	Unit of McDonnell Douglas (US)	Information technology	est £200m	Alternative to flotation
GEA (Germany)	Niro (Danmark)	Engineering	£100m	Danisco non-core sale
AT & T (US)	Unitel Communications (Canada)	Telecoms	£76m	Taking 20% stake
United Biscuits (UK)	BakeLine (US)	Food	£50m	Own label market entry
Redland (UK)	Coverland (France)	Building materials	£48m	Stake raised to 67%
CUC International (US)	Leaguestar (UK)	Timeshare	£45.5m	Alternative to flotation
Bowater (UK)	MiTek (US)	Building materials	£36m	Buying outstanding 44%
Eternit (Belgium)	Steetley Clay Tiles (UK)	Building materials	£19m	Redland disposal
J E Baker (US)	Steetley Refractories (UK)	Building materials	£14.3m	Redland disposal
CRH (Ireland)	Struyk Holding/ Kleinwarenfabriek Wessem (Netherlands)	Building materials	£39m	Two more bolt-on buys

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Safe-haven status gives early boost to Eurosterling

THE Eurosterling bond market had an active start to 1993 with a total of £600m raised by the European Investment Bank and the Kingdom of Sweden. Sterling's unlikely elevation to the status of safe-haven currency made it attractive in a week otherwise dominated by the D-Mark and Swiss franc among European currencies.

Neither of last week's issues went down well with investors, however, and the pace of borrowing may not be sustained.

The EIB's £400m issue, which with a 10½-year maturity is a rarity at a time of a ateep yield curve, was attacked for being too tightly priced.

And Sweden, which reopened an existing five-year issue to raise a further £200m, was criticised for offering a higher spread on the latest tranche, upsetting holders of the existing paper.

The use of Eurosterling in the coming months is likely to be heavily influenced by two factors: the UK government's huge gilts issuing programme, and whether arbitrage opportunities in the swap market return.

Bankers report demand for maturities around the 10-year area. However, there seems little chance of substantial new borrowing while swap spreads remain tight.

Swap spreads are expected if anything to narrow further as a result of the gilts programme and a preference by UK corporates to stay in floating sterling, taking advantage of historically low rates at the very short end of the curve.

The best swap opportunities are thought likely to remain at five years, the maturity of the Swedish issue. Even without an improvement in the swap market, Japanese utilities are expected to be other heavy users of the currency as an alternative to domestic yen.

The recent rally in the stock market means that the predictions late last year of heavy issuing by UK corporates are unlikely to be fulfilled. "We would have thought that there are now strong grounds for corporates to look at the equity market rather than bonds," said Mr Charlie Hanbury-Williams of Samuel Montagu.

The gilts programme is expected to absorb the total cash flow of UK institutions this year, and the need to attract foreign investors could push yields to the point where corporate borrowers opt to tap other markets instead.

"International demand will be the key," says Mr Simon Best of Baring Brothers, "and that hinges on confidence in the currency."

Meanwhile, news last week that holders of the £135m debentures of property group London & Provincial were to be offered 95 per cent of their money in an early repayment prompted a strong rally among other debenture issues.

The possibility of a London & Provincial default had hung over the market for some months, and Citibank's agreement to provide the cash to pay off the bond holders was well received – even though it was the "first time in living memory" that a debenture issue would be repaid at less than par, said Mr Hugh Corbett of UBS Phillips & Orew. Although virtually untraded, the bonds had been quoted at only around 80.

The particular circumstances of L&P are unlikely to be repeated in other cases. But the likelihood of bond holders reinvesting their money in other secured issues helped to drive yields generally lower.

The yield on debentures issued by Peel Holdings, among the highest-yielding secured stocks, narrowed during the week from 289 basis points over gilts to 246 basis points. Yield spreads on longer-dated loan stocks also narrowed by around 20 hasis points.

Brian Bollen and Richard Waters

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Alto Parana(a)★	35	Dec.1994	2	10	95.6933	Chartered WestLB	14.168
Republic of Austria(d)‡	200	Jan.2003	10	(d)	100	UBS P&D Secs.	-
Crédit Local de France(e)‡	150	Feb.2003	10	(e)	99.5	Goldman Sachs Int.	-
Council of Europe(f)	100	Oct.1999	6.64	6.125	97.29	Daiwa/MSI/UBS P&O	6.634
Lbk Hessen-Thüringen(g)‡	100	Jan.2003	10	(g)	99.5	Kidder, Peabody Int.	-
Swedish Export Credit(h)‡	50	Nov.2002	9.79	(h)	99.626	Morgan Stanley Int.	-
Pennzoil Co.(i)§	350	Jan.2003	10	6.5	100	Lehman Brothers	-
Toyota Motor Credit Corp.	300	Jan.1996	3	5.375	101.1275	CSFB	4.961
European Inv.Bank(j)‡	250	Jan.2003	10	(j)	100	Kidder, Peabody Int.	-
LKB(k)‡	200	Feb.2003	10	(k)	99.75	Swiss Bank Corp.	-
Intelsat	150	Jan.2000	7	6.75	100.865	CSFB	6.592
Bayerische Vereinsbank(l)‡	100	Jan.2003	10	(l)	100	Merrill Lynch Int.	-
Export Dev.Corp.(m)‡	100	Feb.2003	10	(m)	100	Merrill Lynch Int.	-
Republic of Austria(p)‡	100	Jan.2003	10	(p)	100	UBS P&O Secs.	-
Nordic Investment Bank(q)‡	100	Feb.2003	10	(q)	100	Salomon Bros.Int.	-
World Bank(r)	1.25bn	Jan.2023	30	7.625	99.486	CSFB/ Goldman Sachs	7.669
Export Dev.Corp.(s)	50	Jul.1998	6.52	6.75	100.0662	CSFB	6.726
Hogy Medical Co.(r,t)§	50	Sep.1997	4.68	2.75	100	Yamaichi Int.(Europe)	-
NordDeutsche LB(u)‡	50	Dec.2002	9.9	(u)	100	Merrill Lynch Int.	-
YEN							
Sumitomo Metal Inds.(b)	30bn	Apr.2000	7.26	5.3	101.85	Yamaichi Int.(Europe)	4.986
D-MARKS							
Deutsche Fin.Netherlands	1bn	Feb.2003	10	7.5	102.5	Deutsche Bank	7.142
Republic of Finland	2bn	Jan.2000	7	7.5	102.4	Dresdner Bank	7.054
Deutsche Fin.Neth.(n)	500	Feb.2003	10	7.5	103	Deutsche Bank	7.071
Bk.Dutch Municipalities	350	Feb.2000	7	7	101.8	SBV(Deutschland)	6.670
Europäische Hypo.(Lux.)	100	Jan.2000	7	7.125	101.15	Frankfurter Hypobank	6.912
Republic of Finland(v)	1bn	Jan.2000	10	7.5	102.55	Dresdner Bank	7.026
Rabobank Nederland(w)‡	125	Jan.2003	10	(w)	102.5	Morgan Stanley	-
Iwanami Shoten(x)‡★	25	Jan.1998	5	(x)	100	DKB(Deutschland)	-
FRENCH FRANCS							
Crédit Local de France(y)	1.5bn	Feb.1998	5	7.625	99.8	BNP Cap.Mkts.	-
Crédit Foncier de France	3bn	Feb.2007	14	8.375	98.224	CCF	8.598
Crédit Nationale	1.5bn	Feb.1996	3	8.25	100.97	Société Générale	7.874
Crédit Local de France(y)	500	Feb.1998	5	7.625	100.1	BNP Cap.Mkts.	-
STERLING							
Kingdom of Sweden(o)	200	Dec.1997	4.85	7.5	98.1	UBS P&D/ Warburg	7.978
European Investment Bank	400	Jun.2003	10.39	8	96.73	Samuel Montagu	8.474
CANADIAN DOLLARS							
Crédit Local de France	300	Feb.1996	3	7.5	101.1875	Paribas Cap.Mkts.	7.047
Nordic Investment Bank	150	Feb.1998	5	7.75	101.425	Daiwa Europe	7.399
Electricité de France	200	Feb.1998	5	7.75	101.155	Swiss Bank Corp.	7.465
Banque Nationale de Paris	100	Feb.2003	10	8.375	100.675	Hambros Bank	8.273
General Electric Cap.Corp.	100	Jan.1998	5	8	101.625	UBS P&O Secs.	7.597
Kingdom of Norway	750	Jan.2003	10	8.375	98.778	Goldman Sachs Int.	8.562
ITALIAN LIRA							
European Investment Bank	200bn	Feb.2000	7	12.75	101.72	IMI Bank Luxembourg	12.369
GUILDERS							
Bk.Dutch Municipalities	400	Feb.1999	6	7	100	SBC Nederland	7.000
De NIB	400	Feb.2003	10	7.25	100.5	ABN Amro Holdings	7.178
Aegon(z)‡	250	Feb.2003	10	(z)	100.65	ABN Amro Holdings	-
AUSTRALIAN DOLLARS							
Australian Ind.Dev.Corp.	125	Feb.2003	10	9.25	100.65	Hambros Bank	9.148
Ford Credit Australia	50	Feb.1998	5	9.5	101.7	Hambros Bank	9.062
State Bk.New South Wales	150	Feb.2003	10	9.25	100.2	Deutsche Bk.Lndn.	9.215
DANISH KRONE							
Fin.for Danish Industry	300	Feb.2000	7	9.25	101.7	Unibank	8.913
SWISS FRANCS							
Swedish Export Credit	200	Feb.2003	10	5.75	102	Swiss Bank Corp.	5.485
Soc.Nat.de Chemins de Fer	300	Feb.2005	12	5.25	101.5	Swiss Bank Corp.	5.080
LB Hessen-Thüringen	100	Feb.2003	10	5.5	101.62	Swiss Bank Corp.	5.287
Inter-American Dev.Bank	500	Mar.2003	10	5.5	102	Swiss Bank Corp.	5.238
Bell Canada	300	Feb.2003	10	5.5	101.25	UBS	5.335
Electricité de France	150	Feb.1998	5	5.25	102.25	Credit Suisse	4.734
Carlsberg Fin.Copenhagen	100	Feb.2003	10	5.5	101.5	UBS	5.303
City of Linz★	60	Jan.2003	10	5.5	100.75	Bank Leu	5.401
Ost.Donau Kraftwerke	130	Feb.2005	12	5.25	102.5	UBS	4.968
LUXEMBOURG FRANCS							
Thompson Brandt Int.(c)	400	Jan.2000	7	8.125	102.25	Kredietbank Lux.	7.697
Cregem Int.Bank★	600	Jan.1997	3.94	7.875	102.4	Cregem Int.Bank	7.150
West LB Int.Luxembourg	2bn	Jun.2001	8.36	7.75	102.2	Kredietbank Lux.	7.378
Banque Paribas Lux.	1bn	Dec.2000	7.87	7.75	101.5	Banque Paribas Lux.	7.486
Crédit Commercial de Fr.	1.5bn	Feb.2003	10	7.75	102.5	Kredietbank Lux.	7.388
Banque Générale du Lux.	1bn	Mar.2003	10.08	7.625	101.9	Banque Gén.du Lux.	7.349
Arbed	1.5bn	Feb.1998	5	8	101.75	BCEE	7.587
Banque Indosuez Paris	1bn	Feb.2003	10	7.75	102.625	Banque Indosuez Lux.	7.370
Caisse Hypo.du Lux.	1bn	Feb.2001	8	7.75	102	Banque Int.à Lux.	7.410
BBL International	3bn	Feb.2005	12	zero	42.5	Crédit Européen	7.391

Final terms and non-callable unless stated. ★Private placement. §Convertible. ‡With equity warrants. ‡Floating rate note. a) Launched on 17/12/92. Putable on 17/6/94 at 98.8235. b) Launched on 29/12/92. c) Issue launched on 16/12/92 was increased to LFr1bn. d) Coupon pays 25bp below 6-month Libor. Minimum coupon 5%, maximum 8¼%. e) Coupon pays 25bp below 6-month Libor. Minimum coupon 5¼%, maximum 8¼%. f) Fungible with outstanding $250m 40 days after payment date. Plus 127 days accrued interest. g) Coupon pays 12½bp below 6-month Libor. Minimum coupon 5%, maximum 8¼%. h) Coupon pays 12½bp below 6-month Libor. Minimum coupon 5%, maximum 10%. Fungible with outstanding $150m. Plus 75 days accrued interest. i) Exchangeable into Chevron shares at $84⅛, a 20.4% premium. $125m Euro tranche, $225m US tranche; tranches are fungible. Callable after 5 years at par. j) Coupon pays 25bp below 6-month Libor. Minimum coupon 5%, maximum 8¼%. k) Coupon pays 25bp below 6-month Libor. Minimum coupon 5¼%, maximum 8%. l) Coupon pays 12½bp below 6-month Libor. Minimum coupon 5%, maximum 9¼%. m) Coupon pays 25bp below 6-month Libor. Minimum coupon 5%, maximum 8%. n) Issue launched on 4/1/93 was increased to DM1.5bn. o) Fungible from payment date with outstanding £600m launched on 12/11/92. Plus 52 days Accrued Interest. p) Issue launched on Monday was increased to $300m. Coupon pays 25bp below 6-month Libor. Minimum coupon 5%, maximum 8¼%. q) Coupon pays 25bp below 6-month Libor. Minimum coupon 5¼%, maximum 8⅛%. r) Coupon payable semi-annually. s) Fungible with outstanding $300m. Plus 173 days accrued interest. t) Final terms fixed on 25/1/93. Callable from 1/4/93 at 103% declining by 1% per annum to par. u) Issue launched on 9/12/92 was increased to $125m. Coupon pays 12½bp below 6-month Libor. Minimum coupon 5%, maximum 10%. Plus 37 days accrued interest. v) Issue launched on Monday was increased to DM3bn. w) 9% fixed annual coupon for first year and 19.75 - 2 × 6-month Libor thereafter. x) Coupon pays 40bp above 6-month Libor. y) Partly paid issue. 40% payable on 1/2/93, 60% on 1/2/94. Increased on Friday to FFr2bn. z) Coupon pays ⅛% below 6-month AIBOR. Minimum coupon 6%, maximum 7¼%. Note: Yields calculated on ISMA basis.

RISK AND REWARD

Recovery hopes spur launch of new derivatives

WILL 1993 be the year when the UK economy finally picks itself up off the floor? That question helped to stimulate the launch of two new equity derivative products last week.

The early signs suggest, though, that it will take time for these products to make themselves as familiar a part of the investment landscape as, say, the futures contract on the FT-SE 100 index.

Last week's instruments, from Smith New Court and Warburg Securities, are based on the FT-SE Mid 250 index, which comprises the tier of companies just below the top 100. These companies will outperform larger ones as the economy recovers, the theory runs: they derive a far higher proportion of their profits from the UK.

Sterling's exit from the exchange rate mechanism, and the belief that the lower interest rates that followed would rekindle economic growth in the UK, has brought outperformance from Mid 250 stocks.

On October 12 last year, when it was launched, the new index stood at 2,403.0, 155.9 points below the FT-SE 100. By the end of last week it had risen to above 2,900, 133 points up on the index of larger companies.

The big question for the derivatives providers, though, is how many investors are actively following the Mid 250. Any which have reorganised their investments to match the indices would find index-based derivatives a natural way to make rapid changes to their asset allocations, without needing to buy or sell the less-liquid second-tier stocks.

Early institutional reaction seems positive, though it is difficult to find institutions that plan to trade Mid 250 futures.

Will Smith's contract eventually be superseded by a similar product on the London International Financial Futures and Options Exchange? The idea is at the top of Liffe's agenda, though there are no immediate plans to create a new contract. Together with the London Stock Exchange, Liffe is examining the use of the Mid 250 among investors to assess likely demand, an exercise that seems likely to continue for some time.

Even if the Mid 250 is taken up, it could be unsuited to an exchange-traded future. Few securities houses trade enough stocks in the index to allow them to trade between the futures and cash markets. Smith reckons it is the only one to trade all 250, though Warburg's 244 stocks give it a close enough replication of the index.

Also, locals are unlikely to be attracted to the contract unless they think it will generate enough liquidity to allow them to trade in and out with ease. It could therefore prove difficult to build enough liquidity to make the contract a success.

Warburg, meanwhile, last week produced an exchange-traded derivative based on the Mid 250 in an attempt to appeal to those investors prevented by their trust deeds from dealing in off-exchange instruments.

The spate of innovation in UK equity derivatives has not been limited to the Mid 250. Smith also launched futures on five sector indices last week, including banks, oils and water companies. OTC derivatives based on particular sectors have been used in the past, though only as one-off exercises.

Salomon, for instance, successfully promoted a series of call warrants based on water stocks ahead of the UK general election last year, playing on the politically sensitive nature of the stocks. In the end, water companies outperformed the FT-A All-Share index by 33 per cent last year.

Richard Waters

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Little interest in long-maturing securities

DEMAND for short-dated gilts picked up slightly while investors showed little interest in long-maturing securities, as the gilt market reacted to indications of lower short-term interest rates across Europe.

The healthier tone to sterling also underpinned prices for short-dated gilts, while funding worries pushed up yields at the longer end of the yield curve.

With the market slow to pick up after the new year break, last week saw relatively little price movement. Yields for gilts maturing at 10 years or less fell by about 10 basis points compared with the week before Christmas, while over the same period, yields at the longer end of the spectrum rose by a similar amount.

One of the biggest influences on the market was the decision by the Bundesbank council to ease its short-term money market rates, a move accompanied by speculation that it would soon cut its internationally important Lombard and discount rates. The central bank's action in cutting its so-called "repo" rate to 8.6 per cent from recent levels of 8.75 per cent or higher was interpreted as signalling a softening in its previously obdurate stance on monetary policy.

Assuming that the Lombard and discount rates come down soon, that could give the green light for Mr Norman Lamont, the chancellor, to reduce UK base rates, now at 7 per cent, in an effort to speed recovery.

Potentially significant room for manoeuvre on this front was provided by last week's strengthening in sterling, which finished on Friday night in London at a relatively healthy DM2.525.

These developments buoyed investor interest in short-dated gilts, while longer-dated securities were mainly on the sidelines due partly to lingering concern about inflationary pressures over the next few years.

Mr Paul Temperton, an economist at Merrill Lynch, said: "All the action at the moment is at the short end of the market, with many investors perceiving that longer maturing issues have big structural problems."

Although Mr Lamont has given few public signs of preparing to cut interest rates, many economists believe it is only a question of time before he does so, especially if the recent signs of a slight upswing in the economy fail to be repeated in the coming weeks.

Theories about a fragile upturn were given extra weight by the 3 per cent year on year increase in the M0 money supply measure in December, together with some evidence about a burst in retail activity around Christmas.

Mr Sanjay Joshi, an economist at Japanese investment house Daiwa, said these indicators did not alter his view that a recovery would be extremely slow. "The pick-up in M0 may simply mean that people are switching into cash, rather than use credit cards where they are anxious to pay off debts," he said.

Mr Stuart Thomson, an economist at Nikko Securities, is another relative pessimist, believing that "signs of a rebound are unlikely to be sustainable".

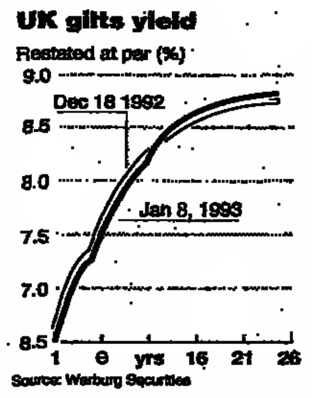
Playing heavily on the minds of consumers may be indications that the Treasury is considering tax increases in the March Budget as a way to restrain rises in the public sector borrowing requirement. The PSBR this financial year is likely to climb to above £37bn, while the figures for 1993-94 and 1994-95 could easily reach above £50bn, especially if growth remains relatively slow.

According to FT estimates, the PSBR in 1995-96 could climb to £75.8bn, or 11.2 per cent of gross domestic product, assuming only weak growth of 1 per cent a year in the three years from 1993-94.

As for gilt investors, the notion that Britain may be stuck with large deficits for a long period is unappealing, on the grounds that this will mean large tranches of price-depressing gilt issues until the mid to late 1990s, on top of the £50bo of issues expected in 1993-94.

Peter Marsh

UK gilts yield



Source: Warburg Securities


Lamont: Bundesbank's move may give scope for rate cuts

FRENCH BONDS

Trading subdued after 'battle of the franc'

THE RELIEF in Paris was almost audible. Last Thursday, after the Bundesbank had cast a tacit vote of confidence in the French franc by reducing its fixed repo rate by 15 basis points, the battle-scarred French currency closed beneath the FFr3.4 barrier against the D-Mark for the first time in a month.

Since early November, when the money markets renewed their attack on the franc, the Bank of France has done everything that it can to defend the currency – from spending heavily from its reserves, to last Tuesday's announcement that it was temporarily replacing the five-to 10-day rate with a one-day facility at the higher rate of 12 per cent.

The strategy seems to have worked. "The second battle for the franc is over and the French authorities have woo," said Mr Didier Maillard, chief economist at Banque Paribas in Paris.

"There is still a lot of tension in the foreign exchange markets and there could be further attacks on the franc. But it is safe for the time being," be added.

The French government certainly seems to think so. Mr Pierre Bérégovoy, the prime minister and architect of the *franc fort* policy of protecting the French currency in his former role as finance minister, was sufficiently confident this weekend to assure the French electorate that the franc would "not be devalued for as long as I am prime minister."

In other words, the French authorities are now convinced that they have bought a breathing space for the franc – at least until German interest rates come down, thereby enabling France to follow suit without endangering its currency.

But in the meantime, the prospects for French bonds are scarcely scintillating.

"The long-term outlook is very positive," according to Mr Christopher Potts, chief economist at Banque Indosuez in Paris. One way or another French interest rates are bound to come down and the French bond market should then really start to perform. But in the meantime it will be fairly subdued."

Subdued was certainly an appropriate adjective for last week's performance.

The French government's regular auction on Thursday received a lukewarm response, raising FFr15.46bn.

The yield on the benchmark 10-year OAT government bonds slipped to 7.98 per cent by the end of last week – significantly lower than 8.02 per cent the previous week and 8.13 per cent a month before.

Moreover, the spread between French OATs and German bunds is still much wider than the French authorities would wish.

The gap rose as high as 100 basis points when the markets stepped up the second assault on the franc in late November, and is now hovering at between 90 and 100 basis points, in spite of last week's "triumph" for the French authorities.

The consensus among economists is that the spread will remain at that level until German interest rates come down and the franc is finally free from the threat of devaluation.

In the meantime, the French economic scene, and the Paris bond market, will continue to be dominated by the fluctuations of the franc and by political uncertainty in the approach to the March elections.

Once the franc is safe and the elections are over, French bonds ought to recover and the spread against bunds will narrow.

Mr Potts of Indosuez suspects that it may fall as far as 30 basis points by the end of 1993 – even lower than its historic low of 38 basis points in late 1991, when the fight for the franc seemed a long way away.

Alice Rawsthorn

US MONEY AND CREDIT

Firm demand from investors for flood of fresh offerings

THE holiday hangovers were swiftly banished last week, as the US bond markets began the new year on a hectic note. In the space of five trading days, a substantial mood-swing had taken place, and near-record quantities of new corporate debt had been absorbed.

Post-holiday business began quietly enough. After a raft of year-end analysts' reports had declared that inflationary forces had been expunged from the US economy and were unlikely to resurface in any significant fashion during 1993, bond prices resumed their upward drift.

At the beginning of the week, the yield on the benchmark 30-year long bond came close to dipping below the 7.3 per cent level. That contrasts with the 7.75 per cent level reached in early-November, shortly after the results of the presidential election were known, when fears that a Clinton administration would pursue a stimulative fiscal policy were at their height.

The friendly interest rate environment, however, induced corporate issuers to distribute a mass of new bond offerings last week. On Wednesday, for example, some $4.7bn-worth of new corporate bonds were sold – only marginally less than the daily record of $5.2bn seen on January 8 last year.

On Thursday, another $4.75bn-worth of new paper hit the market, bringing the new year's cumulative total to more than $11bn.

Although the new issue pressure receded during the final trading session, dealers still expect that the new corporate bond offerings will top the $30bn-mark this month.

Happily, these outpourings on the supply side seemed to meet fairly firm investor demand – in part, a reflection of growing confidence in the US economy. Prices of existing corporate bonds held up relatively well, and traders reported significant buying by foreign investors.

Nevertheless, by the latter half of the week, the surge in corporate debt issues was compounding concerns about the pace at which the US economy may be pulling out of recession and the size of the budget deficit problem which confronts the incoming president.

The alarm-bells started to ring when initial unemployment claims for the week ended December 26 showed a drop of 40,000 – taking the figure to a level not seen for almost four years. They were not silenced when the December jobs data showed the unemployment rate unchanged at 7.3 per cent last month.

Many analysts believe that the speed at which the labour market is picking up was overstated in the initial claims statistics. After all, Christmas fell on a Friday, so people laid off after the holiday season will not have filed for unemployment compensation that week.

Nevertheless, an attack of nerves, exasperated by the supply situation, seized the bond market, and the long bond slumped by 1¼ to yield 7.44 per cent on Thursday. By Friday afternoon, it was continuing to drift lower and the yield has risen to 7.46 per cent.

Still, few pundits seemed inclined to adjust their predictions for the year ahead. Most were content to reiterate their belief that the underlying expansion in the economy is moderate, at best; that the new president will tread warily; and that inflation should not rise significantly above 3 per cent.

Statistics to be released this week may shed some light on the validity of these convictions. Retail sales for December – which, according to reports from the big store chains last week, were strong – are now expected to show a 0.7 to 0.8 per cent rise, while consumer and producer price indices (also for December) should confirm the low level of inflation.

The market anticipates a 0.1 per cent rise in the PPI figure, to be released on Thursday, and a 0.2 per cent increase in the CPI on the following day.

Nikki Tait

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.	Provisional Price for Trading on 10.01.93	Final Prices for Trading on 13.12.92	
1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.72	17.66	17.66
0100	26.40	27.87	20.72
0130	20.49	27.97	29.69
0200	26.48	27.97	29.65
0230	20.60	23.77	29.27
0300	22.35	22.63	24.08
0330	22.35	22.63	24.09
0400	20.69	17.72	17.72
0430	19.59	17.71	17.71
0500	19.57	17.65	17.65
0530	17.48	17.47	17.47
0600	17.47	17.46	17.46
0630	17.47	17.45	17.46
0700	17.47	17.45	17.46
0730	17.47	17.45	17.45
0800	17.46	17.46	17.45
0830	18.50	27.97	27.97
0900	26.12	27.97	27.97
0930	26.12	27.97	27.97
1000	26.12	27.97	29.70
1030	20.42	22.56	24.09
1100	20.34	22.56	24.08
1130	21.03	23.24	24.77
1200	21.27	23.47	20.00
1230	25.49	23.26	24.79
1300	25.49	23.58	25.12
1330	21.27	23.58	25.13
1400	21.03	20.06	20.06
1430	17.51	17.70	17.70
1500	17.48	17.65	17.65
1530	17.48	17.66	17.66
1600	17.54	20.27	20.27
1630	21.27	23.24	24.74
1700	21.87	23.58	25.07
1730	21.88	27.97	29.59
1800	23.88	27.97	29.59
1830	21.90	27.97	28.81
1900	21.86	27.97	29.58
1930	21.00	27.97	29.54
2000	21.90	27.97	29.85
2030	21.03	23.45	24.92
2100	20.47	23.46	24.93
2130	20.47	23.11	24.59
2200	20.15	22.56	24.02
2230	17.51	22.34	23.81
2300	17.49	21.80	23.25
2330	17.47	17.04	17.64
2400	17.43	17.53	17.53

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.80/MWh becomes 1.880p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.

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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.	Provisional Price for Trading on 11.01.93	Final Prices for Trading on 14.12.92	
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0030	17.54	17.66	17.66
0100	27.71	21.80	28.31
0130	23.54	21.80	23.30
0200	27.71	21.80	23.25
0230	20.34	21.80	23.25
0300	20.47	21.80	23.25
0330	20.47	21.80	23.28
0400	17.54	17.66	17.65
0430	17.50	17.64	17.64
0500	17.49	17.64	17.64
0530	17.48	17.69	17.69
0600	17.47	17.69	17.69
0630	17.50	17.70	17.70
0700	17.72	22.46	23.99
0730	20.63	25.12	26.75
0800	22.39	24.96	26.59
0830	22.38	25.13	26.73
0900	22.97	25.89	27.62
0930	26.01	26.15	30.91
1000	26.01	29.10	30.89
1000	26.01	29.15	30.88
1100	26.01	25.99	27.57
1130	26.02	25.99	27.57
1200	26.02	25.89	27.57
1230	26.01	20.70	20.70
1300	26.01	20.65	20.65
1330	22.39	20.46	20.46
1400	22.39	20.46	20.46
1430	22.14	20.48	20.46
1500	18.66	20.03	20.02
1530	18.68	20.03	20.03
1600	22.41	26.70	25.70
1630	27.91	29.47	31.46
1700	41.70	30.71	32.92
1730	42.39	20.77	32.92
1800	40.59	29.70	31.65
1830	30.69	28.19	29.79
1200	28.10	28.00	29.54
1930	33.62	27.97	29.52
2000	22.39	26.14	28.62
2030	21.71	24.98	26.47
2100	21.71	24.98	26.46
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FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]					

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on January 8

THE WEEK AHEAD

ECONOMICS

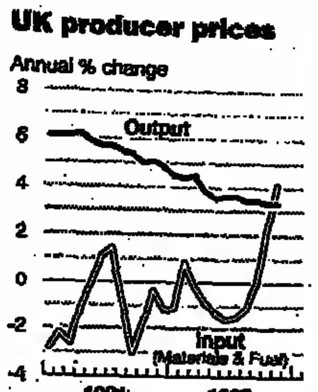
Higher UK input prices expected

SEVERAL INDICATORS on UK inflationary pressures are published this week with producer prices figures on Tuesday expected to show another rise in raw material and fuel prices in December. However, the increase was probably not as sharp as in November when sterling's devaluation had a severe impact on the index. Then input prices rose by 2.4 per cent month-on-month, taking the annual rate of increase to 4.1 per cent.

The effects of a weaker pound on commodity prices still linger and a rise of one per cent on the month is forecast for December. In spite of this, producers are not expected to pass the higher costs onto consumers and the annual rate of output price inflation is forecast to increase only slightly. Credit business figures today may add weight to anecdotal and some statistical evidence that retail sales are recovering. However, many UK economists remain sceptical about the strength of the apparent upturn, believing that private consumption will be restrained by continuing job uncertainty and heavy personal indebtedness.

In Germany retail sales figures for November are forecast to have fallen by just under 1 per cent, confirming that the hoped-for rise in retail sales after the temporary income tax was lifted in July never materialised.

UK producer prices



Source: Datastream

Other highlights of the week follow. The figures in brackets are the median of economists forecasts from MMS International, a financial information company.

Today: UK, November consumer credit (up £50m), House of Commons returns from Christmas recess; Norway, November CPI (flat on month, up 2.2 per cent on year); Canada, November new housing price index (up 0.1 per cent), November motor vehicle sales (up 0.4 per cent), December housing starts (170,000); Australia, November retail trade (down 0.7 per cent).

Tomorrow: UK, December producer prices index - input (up 1 per cent on month, up 6 per cent on year), output (up 0.2 per cent on month, up 3.4 per cent on year, excluding food, drink and tobacco (up 2.4 per cent); France, December consumer price index (up 0.1 per cent on month, up 2.1 per cent on year).

Wednesday: Germany, first estimate for 1992 GDP - West (up 1.2 per cent on year), first estimate GNP - WEst (up 0.9 per cent on year); Norway, December trade balance excluding ships and oil platforms (NKr4.5bn surplus); UK, Committee stage of Maastricht treaty resumes until January 14; October labour income (up 0.2 per cent on month).

Thursday: US, December retail sales (up 0.7 per cent), excluding autos (up 0.5 per cent), December PPI (up 0.1 per cent), excluding food and energy (up 0.2 per cent), initial claims week ended January 2 (333,000); state benefits week ended December 26, money supply data for the week ended January 4, December monthly M1 (up $3bn), M2 (up $1.8bn), M3 (down $5.2bn).

Friday: UK, December retail prices index (down 0.3 per cent on month, up 2.7 per cent on year), excluding mortgage interest payments (up 3.7 per cent on year); Netherlands, December CPI (flat on month, up 2.9 per cent on year); Spain, December CPI (up 0.4 per cent on month, up 5.4 per cent on year); US, December CPI (up 0.2 per cent), excluding food and energy (up 0.2 per cent), November merchandise trade balance ($7.6bn deficit), November merchandise exports ($38.5bn), imports ($46bn), December industrial production (up 0.3 per cent), December capacity utilisation (79 per cent), November business inventories (flat), December real earnings; Canada, November merchandise exports (down 2.3 per cent on month, November merchandise imports (up 2.3 per cetn on month), November trade balance (C$800m surplus); Japan all markets closed.

During the week: Germany, November trade balance (DM4.3bo surplus), November current account (DM1bn deficit), November retail sales (down 0.8 per cent), December wholesale price index (up 0.1 per cent); Spain, November M4 (up 11 per cent on year).

Emma Tucker, Economics Staff

RESULTS DUE

TOMKINS, the conglomerate which has just bought Ranks Hovis McDougall, the bakery, milling and baking company, is expected to report today interim profits of £47m, up from £43.7m. Earnings per share are expected to be up 8 per cent. Tomkins is expected to be enjoying the beginnings of recovery in the US where it has extensive manufacturing operations.

Wednesday sees interim results from Dixons Group. They will depend on how the electrical retailing group chooses to treat the £10m property development profits. Assuming they are not taken at the pre-tax line, taxable profits of about £10m are expected, against last time's £17.3m. Good growth in the UK retail side will lift profits to £20m (£16m), while in the US, losses will also grow to £14m (£11m). Its comments on Christmas trading which falls in its second half, will also be of close interest.

The Rank Organisation, announcing preliminary results on Thursday for the year ended October, is expected to reveal unchanged trading profits for its managed businesses. But lower profits are expected at Rank Xerox, its photocopier joint venture, while profits from its 50 per cent stake in the Universal Studios theme park in Florida should be significantly higher. This adds up to group pre-tax profits slightly lower at £245m (£250.5m). The total dividend should be unchanged at 31p.

First Leisure is reporting preliminary results on Wednesday for its financial year ended October. Pre-tax profits are forecast to rise from £30.4m to between £30.6m and £32m. Assuming £30.6m, earnings will fall to 15.5p (15.67p) after a higher tax charge, and a 10 per cent rise in the total dividend to 6.25p is expected.

Securicor, the security and parcels delivery group, is forecast to unveil a sharp jump in pre-tax profits from £33m to £54m for the year on Thursday.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Save & Prosper Linked Inv. Trust, 1 Finsbury Avenue, EC., 3.00.
Trafalgar House, The Queen Elizabeth II Conference Centre, SW., 11.30.
BOARD MEETINGS:
Finals:
Barr (A.G.)
Treatt
Interims:
Carclo Engineering
Ellis & Everard
Hadleigh Industries
MITIE
Tomkins

■ TOMORROW
COMPANY MEETINGS:
Automagic Hldgs., A.M. House, Coldherbour Lane, Harpenden, 10.30.
Carr's Milling Industries, Forte Crest Hotel, Kingstown, Carlisle, 11.30
McLeod Russel Hldgs., Devon Room, New Connaught Rooms, Great Queen Street, WC., 11.00

National Home Loans Hldgs., Stationers' Hall, Ave Maria Lane, Ludgate Hill, EC., 12.00.
BOARD MEETINGS:
Final:
Cowhurst
Interims:
Barbour Index
Dalepak Foods
Howden
Jacques Vert
Nobo
West Trust

■ WEDNESDAY JANUARY 13
COMPANY MEETINGS:
Capital Radio, Euston Tower, NW., 2.00.
Gleeson (M.J.) Group, Haredon House, London Road, North Cheam, 12.00.
M & G Group, Painters' Hall, Little Trinity Lane, EC., 12.00.
Prospect Inds., Forte Crest, The Marina, Castle Street, Hull, 10.30.
Shani Group, Marriot Hotel, 10 Grosvenor Square, W., 12.00.
BOARD MEETINGS:
Finals:

First Leisure
Southern Business
Interims:
Aberforth Split Level Tst.
Dixons
Dudley Jenkins
First Spanish Inv. Tst.
Lazard Select Inv.

■ THURSDAY JANUARY 14
COMPANY MEETINGS:
BOC Group, Savoy Hotel, The Strand, WC., 11.00.
Regina, 2A Alexandra Grove, Finchley, N., 10.30.
Young (H.) Hldgs., The Leander Club, Henley-on-Thames, 12.00.
BOARD MEETINGS:
Finals:
Aberforth Smaller Co.
Denmans Electrical
Intercare
Microgen
Rank Org.
Securicor
Security Services
TSB
Windsor
Interims:

Birkdale
Cray Electronics
Goode Durrant
Hampson Inds.
Jones Stroud
Stanley Leisure
Wyko

■ FRIDAY JANUARY 15
COMPANY MEETING:
Bellway, Copthorne Hotel, Newcastle-Upon-Tyne, 12.00.
BOARD MEETINGS:
Finals:
First National Fin.
LPA Industries
Interims:
Brit. Bloodstock Agency
OMI Intl.

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports & accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

PARLIAMENTARY DIARY

■ TODAY

Commons: Questions to Transport ministers, Public Accounts Commission, Commons Commission and Commons Leader. Asylum and Immigration Appeals Bill, remaining stages.
Lords: Not sitting.
Committees: Transport implications of the autumn statement (4pm). Witnesses - Mr John MacGregor, transport secretary and Mr Steven Norris, junior transport minister.

■ TOMORROW

Commons: Defence questions. 15pm Questions to the Prime Minister (3.15pm). Debate opened by Opposition - subject to be announced. Insurance Companies (Amendment) Regulations.
Lords: Not sitting.

■ WEDNESDAY

Commons: Foreign Office questions. European Communities (Amendment) Bill, committee.
Lords: Not sitting.
Committees: Parliamentary Commissioner for Administration (10.30am). Transport - Future of the railways; witnesses - European Commission DG VII 11am). Office of Fair Trading (at 11am). Health and safety executive; railway inspectorate (12 noon). National heritage - The national lottery. Witness - Mr Peter Brooke, national heritage secretary. Transport - Future of the railways. Witnesses - Retired railway officers' society (3.30pm); railway historians; railway clearing house (at 4.15pm); British Rail, train load freight and rail freight distribution (5pm). Health - community care. Witness - Audit Commission. Public accounts - operation of the Royal dockyards under commercial management (4.15pm). Witness - vice admiral Sir Neville Purvis, chief of fleet support, ministry of defence. Treasury and civil service - the work and responsibilities of the office of public service and science. Witness - Mr William Waldegrave, chancellor of the duchy of Lancaster.

■ THURSDAY

Commons: Home Office questions. Questions to the Prime Minister. European Communities (Amendment) Bill, committee.
Lords: Not sitting.
Committees: Foreign affairs - Europe after Maastricht (10.30am). Witness Mr Tristan Garel-Jones, minister of state, foreign and commonwealth office. National heritage - Privacy and media intrusion (10.30am). Witness Mr Andreas Whittam-Smith, editor of The Independent.

■ FRIDAY

Commons: Backbench business - Osteopaths Bill, second reading.
Lords: Not sitting.

The Lords returns on January 18.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Banco Bilbao Vizcaya Pta38
Do. (represented by IDR's) Pta38
Barlow Rand R1.10
Bradford & Bingley Bldg. Soc. Fltg. Rate Nts 1998 £231.78
Cape 3p
Craig & Rose 2p
Drayton Blue Chip Tst. 2.905p
Eksportfinans 10% Nts '95 $500
European Colour 0.275p
Great Portland Ests. 3.4p
Hanson ADR $0.252
Henderson Admin. 12.5p
In Shops 0.65p
Japan Airlines 0.0% Bds. 2001 Y690000
Kobe Steel 0.9% Bds. 2001 Y690000
Do. Fltg. Rate Nts. 1998 Y108034
Lee 1 Class B Mtg. Bkd Fltg. Rate Nts. 2035 £2960.62
MBL Fin. 8⅞% Gtd. Bds. 2001 $587500
Mid Kent 4.75p
MMT Computing 2.4p
Morris (Philip) $0.65
Pacific Gas & Elec. 12% Debs. 1992/2000 $120
Rolls-Royce 2.55p
Standard Chartered Undated Primary Cap. Fltg. Rate Nts. (ser. 4) $198.27
Tiger Oats R0.51
TR Property Inv. Tst. 0.4p
Unitas Bank Var Rate Sub. Nts. 2000 $97.92
Vibroplant 1.22p
Warner Howard 2.12p
Yeoman Inv. Tst. Inc. 8.1p

■ TOMORROW
Bradford & Bingley Bldg. Soc. Fltg. Rate Nts. 1997 £222.30
Britannia Bldg. Soc. Fltg. Rate Nts. 1993 £225.27
Caisse Française de Dev. 12¼% Gtd. Ln. 2013 £308.25
Collateralised Mortgage Secs. Class B Mtg *Backed Fltg. Rate Nts. 2028 £271.79*
Diploma 7p
Fluor Corp. $0.12
MBE Fin. Ser. A Gtd Dual Basis Bonds 2001 $212.23
Do. Ser. B 2001 $207.15
Spandex 1.9p
UK 9% Conv. Ln. 2011 £4.50
Do. 9½% Conv. Ln. 2001 £4.75
Wellcome 9p

■ WEDNESDAY JANUARY 13
Clyde Blowers 7.07p
Commonwealth Bank of Australia Undated *Fltg. Rate Nts. $192.94*
CSR A$0.10
Gleeson (MJ) 0.4p
Hewlett-Packard $0.20
Hongkong & Shanghai Banking Corp. Primary Cap. Undated Fltg. Rate Nts. $43.92
Marine Midland Fin. Gtd. Fltg. Rate Sub. Nts. 1994 $13.42
Natl. Westminster Bank Primary Capital Fltg. Rate Nts. Ser. A $194.86
Property Partnerships 2.65p
600 Group 1p

■ THURSDAY JANUARY 14
Capital Radio 3.5p
Dart 1.3p
Highland Distilleries 4.55p
Kobe Steel 5.2% 1998 Y143000
Do. 5.75% 2003 Y158125
Kwik Save 11.3p
McLeod Russel 3.26p
M & G Group 11p
NEC Corp. 6.8% 2000 Y680000
Panna 3p
Shani 2.8p
Smith (James) Ests. 1.4p
Strategem 4.76p
Tams (John) 1.59p
Transfer Technology 8.25p
UK 3½% Funding '99/04 £1.75
Do. 12½% *Treas. 1993 £8.25*
Do. 13% Treas. 2000 £6.50

■ FRIDAY JANUARY 15
Agricultural Mortgage 5½% Deb. 1993/95 £2.75
Do 6¼% Deb. 1992/94 £3.125
American Medical Intl. 9⅞% Uns. Ln. 2011 £4.9375
Anglo American Corp SA R0.90
ASH Capital Fin. (Jersey) 9½% Cv. Cap *2005 4.75p*
Ashley 0.375p
Aust. & New Zealand Bkg A$0.10
Barclays Uns Cap Ln 2010 £6
BCE C$0.66
Body Shop 0.88p
British Airways 3.06p
British Inv. Tst. 1.9p
BZW Conv. Inv. Tst. 1.5p
Caffyns 5p
Castle Comms. 4.5p
Chrysler $0.15
Churchbury Ests. 4.2% Cm. Pf. 2.1p
Cropper (James) 0.975p
Daran Ests. 10¼% 1st Mort. Db. 2012 £5.446
Eastern Transvaal Cons R0.05
Edinburgh Inv. Tst. 3¾% Db. 1998 £1.875
Evode Cv. Cm. Pf. 3.5p
Govett Strategic Inv. Tst. 10⅜% Db. 2016 £5.1875
Guinness 10⅝% Nts '97 £122.463
Halifax Bldg. Soc. Fltg. Rate Nts. 1996 £222.12
Hartebeestfontein Gold R0.30
Helical Bar 5¼% Cv. Rd. Pf. 2012 2.625p
Hogg Robinson 2.6p
Jarvis Porter 1.5p
Lasmo 9⅝% Cm Rd Pf '96 4.8125p
Lucas Inds. 10¾% Uns Ln '92/97 £5.375
Marks & Spencer 2.2p
McKechnie 9.75p
Morgan (JP) $0.80
Motorola $0.22
Morrisy Intl. 3.9% Cm. Pf. 1.95p
Novo 5¼% Cv. 2003 9.75p
Northern Inds. Improvement Tst. 15p
Nth Surrey Water 4% Db. £2
Do 4¼% Db £2.125
Do. 5¼% Db £2.625
Do 7¼% Rd Db '91/93 £3.625
Occidental Petroleum $0.25
Pacific Gas & Elec. $0.44
Perkins Foods Cv Rd Pf '05 4p
Premier R0.35
Quaker Oats $0.48
Quebec Central Railway £2.50
Royal Tst. Gov. Secs. Fd. Inc. Ptg. Rd. Pf. 1.3p
Sapporo Breweries Fltg. Rate Nts. 1999 Y20475
Scantronic 0.19p
SmithKline Beecham A 2.075p
SmithKline Beecham/SmithKline Beckman Eqity Units $0.04503
Do. ADR $0.22515
Southnews 0.7p
Sweden (Kingdom of) 11% Ln. 2012 £550
Tollgate 14% Uns. Sub. Comp. Cv. A Db. R3.50
Do. 14% B R3.50
UK 9½% Treas. Ln. 1999 £4.75
Waddington (John) 3.6p
Witan Inv. 3.4% Cm. Pf. 1.7p
Zandpan Gold R0.0475

■ SATURDAY JANUARY 16
Anglo & Overseas Tst. 4½% Cm. Pf. 1.575p
Bellway 7.5p
Ecolab $0.175
European Inv Bk 9% Ln '01 £225
UK 8½% Treas. Ln. 2007 £4.25

■ SUNDAY JANUARY 17
UK 2½% Index-Linked Treas. 2024 £1.7828

LEGAL NOTICE

THE INSOLVENCY ACT 1986
BWA INVESTMENTS LIMITED
CORSEC PROPERTY INVESTMENTS LIMITED
LTF (LONDON) LIMITED
McCORQUODALE MEDICAL PRODUCTS LIMITED
NORHAM SAND AND GRAVEL COMPANY LIMITED
RML (LONDON) LIMITED
SJC LITHO LIMITED
EARLSWOOD LEASING LIMITED
CONCEPTA LIMITED
KIRBY BRICKS LIMITED

1 Christopher John Williams FCA of Ernst & Young, Queens House, Queen Street, Ipswich, Suffolk, IP1 1SW, hereby give notice that on 31 December 1992 I was appointed liquidator of the above named companies.

NOTICE IS HEREBY GIVEN that the creditors of the above companies are required, on or before 26 February 1993, to send in their full names and addresses, full particulars of their debts or claims, and the names and addresses of their solicitors (if any) to me and if so required by notice in writing from me, are personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated 4 January 1993
C J W Hill, Liquidator
N.B. This notice is purely formal. All known creditors have been paid in full but if any person considers he has a claim against the company he should send in his claim forthwith.

THE INSOLVENCY ACT 1986
McCORQUODALE PACKAGING LIMITED
BOWATER CRINA LIMITED
THE BOWATER INVESTMENT GROUP LIMITED
BOWATER TRANSPORT (CONTRACTS) LIMITED
CAMVAC HOLDINGS LIMITED
BOWATER SCOTT SERVICES (UK) LIMITED
NORTON OPAX COMMERCIAL PRINTING LIMITED
EDINBURGH CRATE HOLDINGS LIMITED

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Dated 4 January 1993
C J W Hill, Liquidator
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WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | NETHERLANDS (continued) | SWEDEN (continued)

[illegible]

BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | JAPAN | ITALY | NORWAY | SPAIN | SWITZERLAND | SOUTH AFRICA | SWEDEN | NETHERLANDS | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. [illegible]

CANADA

TORONTO

4 pm close January 8

Quotations in cents unless marked $

[illegible]

MONTREAL

4 pm close January 8

[illegible]

INDICES

NEW YORK

DOW JONES	Jan 8	Jan 7	Jan 6	Jan 5	1992/93 HIGH	1992/93 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3251.67	3268.69	3305.16	3307.87	3413.21 (1/6/92)	3136.58 (9/10/92)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	103.59	103.75	103.90	103.82	103.90 (6/1/93)	98.41 (20/3/92)	103.90 (6/1/93)	54.99 (1/10/81)
Transport	1488.29	1480.23	1467.74	1459.48	1488.29 (8/1/93)	1204.40 (26/8/92)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	217.14	218.58	221.27	220.33	225.59 (3/1/92)	200.74 (8/4/92)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl. Day's High 3280.31 (3333.53) Low 3221.68 (3250.32) (Theoretical)
Day's High 3268.96 (3313.00) Low 3231.95 (3260.86) (Actual)

STANDARD AND POOR'S

	Jan 8	Jan 7	Jan 6	Jan 5	1992/93 HIGH	1992/93 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	429.04	430.73	434.52	434.34	441.28 (18/12/92)	394.50 (8/4/92)	441.28 (18/12/92)	4.40 (1/6/32)
Industrials	499.48	500.95	505.60	506.05	515.75 (18/12/92)	470.91 (8/4/92)	515.75 (18/12/92)	3.62 (21/6/32)
Financial	39.89	40.13	40.62	40.49	41.07 (30/12/92)	32.40 (8/4/92)	41.07 (30/12/92)	8.64 (1/10/74)
NYSE Composite	236.21	237.26	239.15	239.25	242.08 (18/12/92)	217.92 (8/4/92)	242.08 (18/12/92)	4.46 (25/4/42)
Amex Mkt. Value	395.84	397.12	397.60	397.51	418.99 (12/2/92)	364.85 (9/10/92)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	677.21	678.21	681.85	674.34	681.85 (6/1/93)	547.84 (26/6/92)	681.85 (6/1/93)	54.87 (31/10/72)

	Dec 31	Dec 24	Dec 18	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.12	3.13	2.80

	Jan 6	Dec 16	Dec 0	year ago (approx.)
S & P Industrial div. yield	2.58	2.58	2.58	2.78
S & P Indl. P/E ratio	26.85	26.78	27.10	23.24

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Nat Med Ent	7,233,000	10	- 1⅛
Telefonos	7,056,000	57	- 1
IBM	3,947,400	46⅛	- ⅛
Philip Morris	3,636,300	74⅛	+ 1½
Adv Micro	3,403,700	19⅞	- ⅝
Wal-Mart	3,173,900	59½	- ⅝
Merck	3,144,300	42½	+ 1
Chrysler	3,042,200	36	+ ½
BankAmer	5,008,100	43¼	- ¼
Bristol Myers	2,967,500	62⅛	- ⅜

TRADING ACTIVITY

† Volume (Millions)	Jan 8	Jan 7	Jan 6
New York SE	262.620	303.140	288.530
Amex	16.977	20.048	16.529
NASDAQ	(u)	252.298	229.403

NYSE	Jan 8	Jan 7	Jan 6
Issues Traded	2,427	2,433	2,436
Rises	680	727	1,073
Falls	1,179	1,158	789
Unchanged	568	548	573
New Highs	48	120	99
New Lows	20	17	16

CANADA

TORONTO	Jan 8	Jan 7	Jan 6	Jan 5	1992/93 HIGH	1992/93 LOW
Metals & Minerals	2812.35	2809.46	2872.69	2878.40	3238.87 (16/1/92)	2529.91 (17/11/92)
Composite	3311.77	3318.87	3353.01	3353.50	3666.00 (16/1/92)	3195.40 (14/10/92)
MONTREAL Portfolio	1744.54	1748.32	1769.90	1777.59	1937.59 (16/1/92)	1663.16 (14/10/92)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

AUSTRALIA | AUSTRIA | BELGIUM | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | IRELAND | ITALY | JAPAN | MALAYSIA | NETHERLANDS | NORWAY | PHILIPPINES | SINGAPORE | SOUTH AFRICA | SOUTH KOREA** | SPAIN | SWEDEN | SWITZERLAND | TAIWAN** | THAILAND | WORLD

[illegible]

**Saturday January 2: [illegible] ¶ Subject to official recalculation.

*Calculated at 15.00 GMT.

Base values of all indices are 100 except [illegible] (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks

Friday, 8 January, 1993

	Stocks Traded	Closing Prices	Change on day
[illegible]			

FT MANAGED FUNDS SERVICE

● Unit Trust prices are available from FT Cityline, call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
AIB Grofund American	5	153.4	155.0	163.1	0.00	40591
AIB Grofund Equity	5	202.3	205.1	217.1	2.85	40593
AIB Grofund Euro	5	143.4	145.5	153.1	0.39	40593
AIB Grofund Ext Inc	3	100.4	102.3	105.4	1.87	40594
AIB Grofund Gilt	3	73.22	75.24	77.57	5.39	40596
AIB Grofund Japan	5	122.8	124.1	130.61	0.00	40596

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 [illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
General Inc	5	403.5	405.1	431.0	2.74	[illegible]
General Acc	5	439.2	441.1	469.3	2.73	[illegible]
UK Growth Acc	6	297.8	302.0	321.3	3.09	[illegible]
UK Growth Inc	6	213.5	216.4	230.3	3.09	[illegible]
Higher Inc Acc	6	522.0	529.9	563.8	4.35	[illegible]
Higher Inc Inc	6	322.0	326.8	347.7	4.35	[illegible]
Gilt/Fxd Int Acc	5½	187.4	187.4	176.8	7.18	[illegible]
Gilt/Fxd Int Inc	5½	90.10	90.19	95.26	7.18	[illegible]
Nth America	6	252.9	258.0	274.5	0.00	[illegible]
Far East	6	231.2	233.4	248.3	1.10	[illegible]
Europe	6	193.1	193.1	205.5	1.31	[illegible]
Brit Excell	6	61.74	61.74	00.68	3.19	[illegible]
Brit Fndatn Acc	6	79.61	79.61	84.79	4.97	[illegible]
Brit Fndatn Inc	6	62.49	62.49	66.48	4.97	[illegible]
Global Opps	6	63.03	63.66	67.73	0.00	[illegible]

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 7[illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Gilts & Fixed Int	6	127.0	127.0	134.6	7.00	[illegible]
High Inc Equity	6	139.0	141.9	150.9	[illegible]	[illegible]
Worldwide Bond	6	250.1	250.1	265.1	4.72	[illegible]
American Growth	6	272.4	272.4	291.3	.50	[illegible]
Asian Pacific	6	182.1	186.1	197.9	.97	[illegible]
Assets & Earnings	6	215.2	279.5	233.5	2.69	[illegible]
Capital Reserve Acc	0	124.1	124.1	124.3	5.47	[illegible]
Comdty & Energy	6	63.19	63.19	67.58	1.90	[illegible]
1992 Enterprise	6	79.06	74.06	79.20	2.63	[illegible]
Euro Capital Acc	6	97.50	97.50	164.2	1.90	[illegible]
Euro Capital Inc	6	92.39	92.39	98.81	1.01	[illegible]
General	6	191.7	191.7	205.0	2.83	[illegible]

[illegible]

M & G Securities (0915)H
M & G House, Victoria Road, Chelmsford CM1 1FB
Customer Services/Unit Dealing 0245 [illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Amer & General	5	366.28	366.3	387.1	[illegible]	[illegible]
(Accum Units)	5	451.0	451.0	476.7	[illegible]	[illegible]
Amer Recovery	5	354.71	354.5	377.0	[illegible]	[illegible]
(Accum Units)	5	405.82	407.8	431.3	[illegible]	[illegible]
Amer Smllr Cos	5	108.77	110.9	117.3	[illegible]	[illegible]
(Accum Units)	5	111.15	113.2	119.8	[illegible]	[illegible]
Australasian	5	99.07	98.50	104.2	2.0	[illegible]
(Accum Units)	5	114.9	116.9	123.7	2.0	[illegible]
Capital	5	564.47	564.5	597.0	.37	[illegible]
(Accum Units)	5	614.65	614.7	650.1	.37	[illegible]
Charifund	1	564.57	574.9	580.1	[illegible]	[illegible]
(Accum Units)	1	2304.2	2377.1	2400.9	[illegible]	[illegible]
Commodity	5	230.24	230.3	243.5	.79	[illegible]
(Accum Units)	5	333.18	333.7	352.8	[illegible]	[illegible]
Compound Growth	5	749.08	749.1	792.2	[illegible]	[illegible]
Dividend	5	30.99	31.10	33.30	[illegible]	40947
(Accum Units)	5	120.33	121.1	129.6	5.01	40948
Equity Income	5	252.9	258.7	276.8	4.23	40946
(Accum Units)	5	295.18	302.0	323.1	4.23	41496
European & General	5	331.95	335.0	354.3	1.85	40849
(Accum Units)	5	414.71	418.5	442.6	1.85	40850
European Dividend	5	53.20	51.20	54.70	5.37	47788
(Accum Units)	5	57.21	57.30	61.10	5.37	47789
Extra Yield	5	325.82	327.9	350.4	5.29	40851
(Accum Units)	5	934.28	942.4	1008.4	5.29	40852
Far Eastern	5	225.42	228.9	242.1	1.48	40853
(Accum Units)	5	295.37	300.2	317.5	1.48	40854
Fund of Inv Tsts	5	436.47	436.5	461.6	2.79	40855
(Accum Units)	5	787.61	787.7	833.0	2.79	40856
General	5	49.14	49.20	52.00	1.21	40857
(Accum Units)	5	129.5	129.5	136.4	1.27	40858
Gilt Income	0	60.49	60.50	60.50	9.23	40859
(Accum. Units)	0	147.15	147.2	147.3	9.23	40860
Gold	5	29.74	30.30	32.00	2.64	40861
(Accum Units)	5	34.79	35.50	37.50	2.64	40862
High Income	5	21.61	21.60	27.20	5.56	40863
(Accum Units)	5	79.96	80.40	86.10	5.56	40864
Intl Growth	5	60.79	60.80	64.00	1.09	40865
(Accum Units)	5	104.40	104.5	111.1	1.09	40866
International Inc	5	78.89	79.00	84.20	5.56	40867
(Accum Units)	5	108.34	108.5	115.5	5.56	40868
Japan & Gen	5	34.54	34.60	36.00	–	40869
(Accum Units)	5	37.06	37.10	24.50	–	40870
Japan Smaller Cos	5	104.34	104.6	110.6	–	40871
(Accum Units)	5	105.07	105.4	111.4	–	40872
Midland	5	45.16	45.20	47.80	5.09	40873
(Accum Units)	5	142.86	142.9	151.2	5.09	[illegible]
Pension Ex	2	987.76	801.2	821.3	[illegible]	[illegible]
Recovery	5	31.41	31.70	33.40	.73	[illegible]
(Accum Units)	5	49.36	49.40	53.30	.73	[illegible]
Second General	5	53.45	53.50	56.60	[illegible]	[illegible]
(Accum Units)	5	136.72	130.8	138.4	[illegible]	[illegible]
Smaller Cos	5	49.92	51.80	54.80	[illegible]	[illegible]
(Accum Units)	5	92.95	96.40	102.0	[illegible]	[illegible]
Trustee	5	54.55	54.00	36.40	[illegible]	[illegible]
(Accum Units)	5	129.67	129.7	137.2	[illegible]	[illegible]

Murray Johnstone UT Mgmt (1000)H
7 West Nile St, Glasgow G2 2PX 0345 090 933

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Acumen	1	78.21	78.21	80.32	3.09	46327
Acumen Inc	1	76.80	76.80	79.88	3.09	–
Acumen Reserve	1	74.53	74.53	75.26	8.71	46328
Acumen Reserve Inc	1	71.83	71.83	72.56	8.71	–
American Income	1	164.00	164.00	167.79	2.98	41056
Equity Income	1	87.41	88.49	89.98	5.15	41057
European	2	54.03	54.03	55.26	1.42	41058
Smaller Cos	1	55.49	55.49	57.95	1.87	41060
Olympiad	1	47.76	97.76	48.96	1.83	41061
Global Bond	1	46.81	40.81	46.77	8.33	–
UK Growth	1	79.41	79.41	81.87	1.86	41065
Pacific Growth	1	50.61	58.62	60.43	1.39	–
Japan Growth	1	68.44	68.44	69.59	0.00	–

NFU Mutual Unit Mngrs Ltd (1400)F
Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex
Enquiries 0277 227300 Dealing 0277 261010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Avon Equity	6	101.35	102.9	109.53	3.29	41071

NM Unit Trust Mngrs (1200)F
The Ditton Centre, North Harbour, Portsmouth
Enquiries: 0705 372222 Dealing: 0705 [illegible]

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American ♥	5¼	40.75	40.85	43.57	0.76	[illegible]
(Accum Units) ♥	5¼	49.31	49.46	47.42	0.76	[illegible]
Australian ♥	5¼	215.40	217.40	239.70	0.00	[illegible]
(Accum Units) ♥	5¼	243.60	246.30	263.20	0.00	[illegible]
Conscience	5¼	59.74	59.74	61.75	1.44	[illegible]
(Accum Units)	5¼	64.11	64.11	68.42	1.44	[illegible]
European	5¼	152.00	152.00	162.10	1.33	[illegible]
(Accum Units)	5¼	162.18	162.18	172.40	1.33	[illegible]
Extra Income	5¼	60.77	68.98	73.61	6.08	[illegible]
(Accum Units)	5¼	102.90	103.20	110.10	6.08	[illegible]
Far East Gth Acc	5¼	124.80	127.00	135.79	0.00	[illegible]
Gilt & F.I	5¼	56.92	56.47	60.22	7.45	[illegible]
(Accum Units)	5¼	130.60	130.60	138.10	7.66	[illegible]
Gold ♥	5¼	24.88	24.00	26.75	0.00	[illegible]
(Accum Units) ♥	5¼	26.79	26.79	28.80	0.00	[illegible]
Income	5¼	48.62	48.62	51.86	5.50	[illegible]
(Accum Units)	5¼	145.79	145.70	155.40	5.50	[illegible]
Intnl	5¼	26.01	26.01	27.90	0.97	[illegible]
(Accum Units)	5¼	37.37	37.37	40.05	0.97	[illegible]
Jap Smaller Cos	5¼	227.60	227.60	242.70	0.00	[illegible]
Sing & Malaysian	5¼	127.40	127.00	137.10	0.90	[illegible]
(Accum Units)	5¼	133.00	133.00	142.60	0.00	[illegible]
Smaller Co's	5¼	21.97	22.30	23.97	2.00	[illegible]
(Accum Units)	5¼	25.40	25.78	27.75	2.00	[illegible]
Special Sits	5¼	30.19	30.36	32.64	1.87	[illegible]
(Accum Units)	5¼	54.45	34.65	37.25	1.87	[illegible]
Sterling Deposit	0	100.1	100.10	100.10	6.60	–
(Accum Units)	0	100.70	100.79	100.70	6.00	–
Tokyo	5¼	59.93	60.20	64.21	0.00	41098
(Accum Units)	5¼	60.53	60.81	64.86	0.00	41099
UK Equity	5¼	152.30	152.30	162.40	3.06	41100
(Accum Units)	5¼	282.40	282.40	301.20	3.06	41101
US Smaller Cos ♥	5¼	97.78	99.77	106.79	0.00	41102

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

[illegible]

FT MANAGED FUNDS SERVICE

● Unit Trust prices are available from FT Cityline. call 0891 43 + the five-digit code listed after the unit trusts. Calls charged at 36p/minute cheap rate and 48p/minute at all other times.

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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FT MANAGED FUNDS SERVICE

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Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4UB 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Gwth Mngd	655.8	695.6	-	42315
Adventurous Mngd	156.0	166.0	-	46402
Cautious Mngd	123.3	131.4	-	46403
Cash Fd	316.1	333.1	-	43316
Property Fund	216.1	229.9	-	43317
Equity Fund	738.2	785.4	-	43310
Fxd. Int. Fund	408.2	421.8	-	43319
International	325.6	346.4	-	43320
High Income	591.5	629.5	-	43321
Far East	426.6	453.9	-	43322
North American	439.5	467.6	-	43323
Special Sits	544.8	578.0	-	d3324
Technology	453.4	482.4	-	43325
Extra Inc Fd	321.6	342.2	-	43326
Convertible & Gilt Fd	152.7	162.5	-	43327
American Income	175.1	186.3	-	43328
Gilt Fund 20	436.0	464.7	-	43329
European Fund	110.5	121.9	-	43330
Pref & Fixed Int	110.3	117.4	-	46332
UK Blue Chip	117.5	123.9	-	47044
Recovery Fund	113.5	119.7	-	d7056
Equity Income Dist	104.9	111.7	5.03	47016
Managed Dist	99.9	106.3	5.60	47017
High Yield Dist	101.6	107.1	8.62	44422
Pension Funds				
Balncd Gth Mgd Pens Acc	756.1	794.9	-	43331
Adventurous Mngd Pens Acc	163.6	172.3	-	46404
Cautious Mngd Pens Acc	142.5	150.0	-	46405
Building Soc. Acc	364.3	383.5	-	43332
Property Pens. Acc	294.2	309.7	-	43333
Fix. Int. Pens. Acc	630.3	663.5	-	43334
Equity Pens. Acc	948.9	998.9	-	43335
International Pens Acc	301.0	316.9	-	43336
High Inc Pens Acc	656.4	691.0	-	43337
Tech Pens Acc	319.1	310.9	-	43338
N American Pens Acc	335.2	352.9	-	43339
Far Eastern Pens Acc	429.3	401.9	-	43340
Special Sits Pens Acc	445.0	468.5	-	43341

Reliance Mutual

Reliance House, Tunbridge Wells, Kent 0892 510035

	Bid Price	Offer Price	Yield Gross	City-line
Deposit Acc Fd	168.1	126.9	-	43575
Equity Acc Fd	399.8	420.9	-	43576
Managed Acc Fd	351.2	369.7	-	43577
Prop Fd (1st Issue)	-	624.1	-	43578
Prop Acc Fd (2nd Iss)	120.2	126.5	-	43579
Unit Trust Mn. Fd	160.3	168.7	-	43580
RL Pension Funds				
Deposit Acc	243.0	256.7	-	43581
Equity Acc	296.9	312.5	-	43582
Fixed Int Acc	245.0	257.8	-	43583
Gilt Indx Lnk Acc	184.7	194.5	-	43584
Managed Acc	387.3	407.7	-	43585

J Rothschild Assurance PLC

1 Rothschild House, Dollar Street, Cirencester

Telephone: 0285 640302 Helpline: 041 307 6500

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
JRA/M&G Managed	113.1	119.1	-	46659
JRA/Scottish Amicable Mngd	110.3	116.2	-	46996
JRA/St James's Place Mngd	114.7	120.8	-	47133
Deposit	100.5	105.6	-	46281
Far East	110.7	116.6	-	46304
Gilts	105.1	110.7	-	46397
Greater European	108.0	115.7	-	46488
North American	127.6	134.4	-	46859
UK Equity	115.1	121.2	-	47154
Pension Funds				
JRA/M&G Managed cap	111.2	117.1	-	46800
JRA/M&G Managed acc	114.9	121.0	-	46714
JRA/Scottish Amicable Mngd cap	100.6	114.4	-	47129
JRA/Scottish Amicable Mngd acc	112.3	118.3	-	47128
JRA/St James's Pl Mngd cap	117.8	124.0	-	47131
JRA/St James's Pl Mngd acc	121.7	128.2	-	47130
Deposit cap	100.1	105.4	-	46285
Deposit acc	103.4	108.9	-	46284

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	Yield Gross	City-line
John Govett Management (IoM) Ltd				
Dlr Geared Curr Mkt Jan 5	$17.38		–	45839
Paragon Plus Ret Jan 4	£9.94		–	46732
Paragon Stlg Ret Jan 4	£11.32		–	46733
SE Asian Wt NAV Jan 7	$9.51		–	46015
Govett Mgd Ftre Jan 8	£14.35	13.70	–	44516
Govett Mngd Futs Jan 8	$10.15	11.11	–	47538
New Horizons Int Jan 7	$15.87		–	46843
New Horizons In Wts Jan 7	$8.00		–	–
Dlr Geared Bd Jan 8	$7.30		–	46440
IBI Global Funds Limited				
Intl Stlg Gwth	£20.86	21.97	–	45289
Intl $US Gwth	$17.00	18.78	–	45290
High Income Gilt	£26.06	27.02	–	45291
International Equity	£21.11	22.23	–	45292
International Bond	£22.65	23.48	–	45293
Managed Currency	£27.63	27.92	–	45294
Sterling Currency	£26.60	26.88	–	46030
US$ Currency	$37.80	30.19	–	46031
Irish $ Currency	I£15.35	15.52	–	46029
R & H Fund Managers Ltd				
LFM Sterling Fd	£11.05	11.52	–	44455
B F Offshore Inc Fd Ltd	£11.75	12.25	–	46580
Target International (Isle of Man) Ltd				
TMG Offshore Fd	£9.48	10.27	–	46450
Reliance Mutual WW S/S	$9.75	10.03	–	46581

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Conflicting factors

THE DOLLAR'S exchange rate against the D-Mark will be swayed by conflicting forces this week, *writes James Blitz.*

Pushing the US currency upwards are growing expectations that the Bundesbank will aggressively ease monetary policy next month, narrowing the differential between US and German interest rates.

Undermining the currency, however, are concerns that the upturn in the US economy is still not as strong as expected.

The Bundesbank's decision to cut its money market dealing rate has probably given the dollar a firm underpinning for the next week or two. The recent 15 basis point cut in the fixed rate repo, to 8.60 per cent, has been well received by the markets, pushing the dollar as high as DM1.6490 in European trading on Friday.

However, dealers will be watching the next two Bundesbank council meetings to see whether the central bank follows last Thursday's move with another cut, either in money market rates or the officially-posted Lombard and discount rates.

This week, in particular, dealers will be watching progress in the talks on the German wage round and budget deficit. A successful conclusion to these talks would make it easier for the German central bank to ease policy again next month.

Last Friday's poorer-than-expected figure for US employment may give the dollar a slightly weaker tone, however.

The non-farm payroll figure in the US is still seen as one of the best indications of the strength of the country's economy.

It tends to have a strong impact on dollar trading for several days afterwards.

The latest figure, for December, proved something of a disappointment in Friday afternoon trading, rising by 64,000 on the month, when dealers had been looking for a rise of more than 100,000.

The US weekly jobless claims figures on Thursday will therefore be watched particularly closely.

£ IN NEW YORK

Jan 8	Close	Previous Close
£ Spot	1.5310-1.5320	1.5305-1.5315
1 month	0.54-0.52pm	0.54-0.53pm
3 months	1.46-1.43pm	1.46-1.43pm
12 months	3.95-3.85pm	3.95-3.85pm

Forward premiums and discounts apply to the US dollar

OTHER CURRENCIES

Jan 8	£	$
Argentina	1.5175 - 1.5190	0.99000 - 0.99100
Australia	2.2785 - 2.2805	1.4865 - 1.4875
Brazil	19882.0 - 19882.2	12973.6 - 12973.7
Finland	8.3035 - 8.4190	5.4550 - 5.4750
Greece	331.900 - 337.950	217.500 - 221.900
Hong Kong	11.8625 - 11.8785	7.7413 - 7.7425
Iran	2313.00*	1493.00*
Korea(Sth)	1204.25 - 1223.70	788.80 - 795.00
Kuwait	0.46700 - 0.46800	0.30500 - 0.30550

BASE LENDING RATES

	%		%		%
Adam & Company	7	Cyprus Popular Bank	7	Mount Banking	7
Allied Trust Bank	7	Duncan Lawrie	7	NatWestminster	7
AIB Bank	7	Equatorial Bank plc	7	Northern Bank Ltd	7
●Henry Ansbacher	7	Exeter Bank Limited	8	Nykredit Mortgage Bnk	7.5
B & C Merchant Bank	13	Financial & Gen Bank	7	●Rea Brothers	7
Bank of Baroda	7	●Robert Fleming & Co	7	Roxburghe Bank Ltd	9
Banco Bilbao Vizcaya	7	Girobank	7	Royal Bk of Scotland	7
Bank of Cyprus	7	●Guinness Mahon	7	●Smith & Williamson Secs	7
Bank of Ireland	7	Habib Bank AG Zurich	7	Standard Chartered	7
Bank of India	7	●Hambros Bank	7	TSB	7
Bank of Scotland	7	Hampshire Trust Plc	13.5	Unibank plc	7
Barclays Bank	7	Heritable & Gen Inv Bk	7	●United Bk of Kuwait	7
Brit Bk of Mid East	7	●Hill Samuel	7	Unity Trust Bank Plc	7
●Brown Shipley	7	C. Hoare & Co	7	Western Trust	7
CL Bank Nederland	7	Hongkong & Shanghai	7	Whiteaway Laidlaw	7
Citibank NA	7	Julian Hodge Bank	7	Yorkshire Bank	7
City Merchants Bank	7	●Leopold Joseph & Sons	7		
Clydesdale Bank	7	Lloyds Bank	7		
The Co-operative Bank	7	Meghraj Bank Ltd	7		
Coutts & Co	7	McDonnell Douglas Bk	7		
Credit Lyonnais	7	Midland Bank	7		

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	Jan 8	Jan 7	Jan 6	Jan 5
FT-SE 100	2169.2	2818.5	2826.0	2833.8
FT-SE Mid 250	2932.7	2940.3	2919.3	2910.2
FT-SE-A 350	1377.2	1384.7	1386.3	1388.3
FT-A All-Share	1358.35	1362.73	1363.66	1364.85
FT-SE Eurotrack 100	1060.25	1061.92	1061.68	1090.07
FT-SE Eurotrack 200	1187.34	1171.90	1179.18	1180.18
FT Ordinary	2176.8	2193.3	2194.8	2189.1
FT Government Secs.	93.83	93.98	94.16	93.99
FT Fixed Interest	109.36	109.59	109.57	109.53

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

MONEY MARKET FUNDS

LONDON SHARE SERVICE

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	Wk% ch'ge	Div gross	Dividends paid	Last xd	City line
Abbott Labs	h	18⅞xd	-9.2	68c	FeMyAuNv	8.10	1503
Allegheny & W	♥	423p	-2.3	30c	–	–	–
Amdahl		448p	-4.9	10c	MrMrJeAu	31.1	–
Amer Cyanamid		36¼	-4.2	$1.65	MrJeSeDe	4.2	–
Amer Express		16½xd	-.4	$1.00	FeMyAuNv	28.9	1594
Amer T & T		34xd	-.7	$1.32	FeMyAuNv	28.12	1597
Ameritech		46⅞	0.3	$3.68	FeMyAuNv	28.9	–
BankAmerica		29½xd	-6.9	$1.30	FeJeSeDe	16.11	1744
Bankers NY		43⅞xd	-3.2	$3.12	ApJyOcJa	28.12	1745
Bell Atlantic		33¾	-2.2	$2.60	FeMyAuNv	4.7	–
BellSouth		34¼	-.5	$2.76	FeMyAuNv	9.4	–
Bethlehem Steel	♥	10¼xd	2.4	–	MrJeSeDe	6.2	1821
Bowater		1536pxd	-2.6	$1.20	OcJaApJy	8.8	1884
CPC	h	30⅝xd	-6.9	41.20	JaApJyOc	28.12	2283
Cadiz Land Inc	♥	115p	–	–	†	–	–
California Engy		1086p	0.9	–	–	–	–
Chase Manhattan		16¼xd	-3.9	21.20	FeMyAuNv	28.10	2109
Chrysler		23⅛xd	7.2	60c	ApJyOcJa	16.12	2130
Citicorp		13⅞xd	-2.6	–	–	23.10	2141
Colgate-Palm		35⅝xd	-3.0	$1.24	FeMyAuNv	22.7	2164
Cont'l Bank		1278p	-9.6	60c	DeMrJeSe	21.6	–
Dana		21⅞xd	0.8	$1.60	MrJeSeDe	28.11	2306
Bros General		773p	2.8	–	–	–	–
Decora Inds	♥	146p	–	–	†	–	–
Dex & Brad		38¾	-.6	$2.28	MrJeSeDe	13.2	–
Eaton		52¼	-.7	$2.20	FeMyAuNv	3.2	2410
Echlin		15⅝xd	3.7	70c	JaApJyOc	28.12	3046
FPL		23⅞xd	-1.2	$2.44	MrJeSeDe	25.8	–
Ford Motor		29½xd	2.6	$1.60	MrJeSeDe	27.10	2615
Gen Elect		57½xd	0.6	$2.52	JaApJyOc	2.12	2675
General Host	♥	366p	0.2	34c	†	13.12	–
Gillette		36½xd	-6.3	72c	MrJeSeDe	30.10	2595
Hasbro		28⅞	–	28c	FeApJyNv	1.8	–
Honeywell	h	22⅛xd	0.4	89c	MrJeSeDe	22.11	2616
Houston Inds		29¾	-3.3	$3.00	MrJeSeDe	10.11	–
IBM		30¾	-7.9	$4.84	MrJeSeDe	0.11	2986

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

Notes	Price	+or-	Y'ld Gr's	Div net	Div cov.	Dividends paid	Last xd	City line
Hemlo Gold C$	£3¾	-6.3	020c	–	Dec Jun	8.11	–	
Ivernia West I£	36	8.1	–	–	–	–	3741	
Kells Mins I£	0	—	–	–	–	–	1453	
Kenmare	7½	16.4	–	–	–	–	–	
Melinga Res.	31	-12.5	–	–	–	–	1185	
Navan Res I£	26	-23.5	–	–	–	–	–	
5pc Ln Notes	28	-7.1	–	–	–	–	3698	
Oryx Gold	47½	-2.1	–	–	–	–	3407	
Plateau	39	—	–	–	–	–	3080	
RTZ	673	-1.5	19.5	1.5	Dec Jul	21.9	4193	
Vizcaya	2	—	–	–	–	–	–	

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below
- ✕ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed; dealings permitted under Rule 535(2)
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. o Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT.

z Dividend includes a special payment: Cover does not apply to special payment. E Auction basis. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1993. J Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94.

N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Wetherspoon (JD) (Brewers & Distillers), Tepnel Diagnostics (Health & Household) and Navan Res. 5pc Ln. Notes (Miscellaneous). Deletions: Flour Corp. (Americans), Malaysia Select Fund and Malaysian Emerg. Co's Wts. (Inv. Companies) and TV-am (Media).

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4 pm close January 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 – 93 High	Low	Stock	Div.	Yld. %	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
12⅞	18¼	AAR Corp	0.48	4.0	91	493	13	11½	11⅛	−⅛
26½	16	A L Labs A	9.16	0.7	158	362	25⅝	25⅛	20⅜	+⅛
60½	52⅛	AMP Inc	1.52	2.8	21	2340	56⅞	36⅛	36⅞	
50⅜	54⅛	AMR			14	1852	63⅞	65⅛	69⅛	+⅞
3⅛	1⅝	ARX			19	2	1⅞	1⅞	1⅞	
50½	30½	ASA	2.00	6.4	20	204	31⅛	31¼	31⅛	+⅛
34⅜	26½	Abbott Lab	0.60	2.1	20	[illegible]	29	26¼	28⅞	+½
13⅞	10¾	Abitibi Pr	0.50	4.5	4	525	11⅜	11¼	11½	−⅛
11⅛	19⅛	ACM Gvt In	0.38	3.3		146	11	10¼	10⅞	
10⅛	9	ACM GvOpp	1.21	12.9		100	0⅛	8⅛	0⅛	+¼
9⅛	6½	ACM Gvt Sp	0.35	9.4		136	0	9⅞	8	
11⅛	6⅞	ACM Gvt Se	1.01	9.4		256	19⅛	10⅛	19⅛	+⅛
10⅝	6⅝	ACM Man	1.16	11.7		142	19½	10	10½	
12⅞	6⅛	ACM Managd	9.78	8.8		146	6⅞	4⅛	6⅞	
11⅛	4⅛	Acme Cleve	0.40	4.0	18	129	6⅛	6½	6⅛	−⅛
7⅛	3⅛	Acme Elect			162	257	u8⅛	6⅛	6⅛	
33¼	14⅛	Acuson			11	1557	15⅛	14⅛	14⅞	−⅛
21	18⅛	Adams Expr	1.62	8.2	1	63	19⅛	10⅛	18⅛	
48⅛	22⅛	Ad Micro	3.00	6.3		603	40	47½	47⅛	−⅞
21½	7½	Ad Micro P	3.00	15.6	6	2501	50⅞	19	19⅛	−⅛
9⅛	4⅞	Advest Grp	0.10	2.0	11	50	0⅛	2⅛	0⅛	−⅛
42⅛	30	Aegon ADR	1.38	3.3	7	371	41⅛	41⅛	41¼	
46⅛	38	Aetna LI	2.76	2.9	13	1406	46⅞	46⅛	46⅛	−⅛
12⅛	8⅛	Affil A	0.24	1.8	17	2071	u13⅛	12⅛	13	+½
34⅛	24	Aflac	9.44	1.3	18	987	u34⅞	34⅛	24⅞	+⅛
19½	12	Ahmanson	0.36	4.6	8	3457	18⅛	17½	18	+⅛

[illegible]

- A -

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NYSE COMPOSITE PRICES

Continued from previous page

1992–93 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	13	Salomon Br	1.00	7.5		616	13½	13¼	13¼	-¼
39	28¾	SalomonInc	0.64	1.7	13	1415	37⅝	38¾	57	-⅜
25	21¼	SanDgo G&E	1.44	0.1	14	566	23¾	20¼	23½	-¼
4⅞	2⅝	SantaFeEDu	0.40	11.6	28	34	3⅝	3½	3⅝	+⅛
0⅞	7	SantaFeERs	0.19	2.0	787	1604	6⅛	7¼	7⅞	-⅛
39¾	30¾	SantaFePac	2.80	7.8	12	63	28⅞	36	38⅛	-⅛
14⅛	10⅝	SantaFeSth	0.10	6.8	32	1957	13	12⅝	13⅞	-¼
32½	20¼	Sara Lee	0.14	0.5	21	7502	28¼	21½	21⅞	
44¼	39⅝	Scana Corp	2.68	6.6	14	830	40½	40⅛	40⅝	-¼
47⅝	40¼	Scecorp 4	2.80	6.5	13	1567	43½	43	43	-½
30½	22¼	ShererRP			102	236	34⅝	33⅝	33¾	-¼
70	49⅞	SheringPl	1.66	2.9	17	5011	60¼	59⅛	59⅞	-¼
70⅝	63⅝	Sch'berger	1.20	2.1	18	4829	50¼	55½	56⅝	+⅛
37⅝	16⅝	Schwab(C)	0.24	6.9	15	2974	20	27¼	27¼	
10⅛	4½	Schwitzer			55	31	6⅝	6¾	6⅛	-⅞
27⅛	16¾	ScientAtln	0.20	0.3	42	767	25	24	25	
16⅝	7¼	Scotman	0.16	1.1	77	1076	0½	0¼	8¼	-⅛
40	34½	ScottPaper	0.20	2.2	72	2070	36⅛	35½	35¾	-¼
17½	13½	ScuddrNAsF	0.55	3.7		52	14¾	14⅝	14¾	-⅛
0⅝	7½	ScuddrNEuF	0.34	4.3		226	8	7⅝	7⅞	
24	13	Sea Contrs	0.45	2.2	12	182	20⅝	18½	20⅝	+1½
15¾	14⅝	SeaC1.4625	1.48	0.4		z120	15⅛	15¼	15½	+⅛
31	25⅝	Seagram Co	0.56	2.3	19	5314	25⅛	d24¾	24⅞	-¼
20¾	21⅝	Seagull En			80	92	28⅝	29¼	23⅞	
28½	20½	Sealed Air			24	205	25¼	24⅞	25⅛	
23	12⅛	SPX Corp	0.40	2.3	13	203	17⅝	17⅛	11½	+¼
45	67	Sears Roeb	2.00	4.5	38	4248	44½	43⅝	44½	-⅛
13⅛	11⅞	Seligm Sel	0.88	6.6		46	13	12⅞	13	
32⅞	62½	Sensormat	0.30	0.9	27	737	u32⅛	31⅛	32½	+¼
61	29	Sequa A	0.60	1.9	24	1616	32½	32¼	32⅝	-⅛
66	33¼	Sequa B	0.50	1.5	17	20	[illegible]	[illegible]	[illegible]	[illegible]

- X - Y - Z -

1992–93 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
82¼	56½	Xerox	3.00	3.6	19	2686	u84⅛	83½	84¼	-⅛
65	50½	Xerox4.125				z100	53	53	52	-1
44⅛	24⅞	Xtra 1.94	1.94	4.4		29	u44⅛	44⅛	44½	
84⅛	28½	Xtra Corp	0.80	1.2	1T	144	u65⅝	84½	64¾	-1⅛
30⅛	25¾	Yankee Egy	1.66	8.6	13	32	29⅞	29¾	29¾	-⅛
1½	½	Zapata			43	188	⅞	¾	⅛	+⅛
11½	6	ZenithElec			2	186	8¼	6	9⅛	
20	14½	Zenith Nat	1.00	4.9	10	152	u20½	20½	20½	-⅛
7⅛	6	Zenix Inc	0.82	11.9		128	6⅛	6¾	9⅞	
14⅞	10	Zero Corp	0.40	2.7	22	192	u14¾	14½	14¾	+⅛
39⅝	27¾	Zurn Ind	0.88	2.3	44	115	u39⅝	38¾	38	-1
14⅛	12	Zweg Fund r	1.44	11.5		200	12⅛	12¾	12¾	
11	9½	Zweig Totl	0.98	0.6		292	16⅛	10	10	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close January 8

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pegasus G	0.10	29	129	13⅞	13¾	13½	+⅛
Perini	0.80	17	125	17⅝	16¾	17	-1
Pet H&P	1.14	11	9	11¼	17¼	16¾	-½
Phil LD	0.25	0	681	35	34¼	34⅝	

NASDAQ NATIONAL MARKET

4 pm close January 8

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]			140	⅛	d¹⁄₃₂	⅓₂	
Wilmington	0.48	24	1454	23⅛	23	23½	+⅛
WPP Group	1.11	1	1835	1⅛	1⅞	1⅛	+⅛
Wyman-Gordon	0.40	1	015	5⅛	6¼	5¼	-⅛

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		26	1857	24½	29½	23¾	-¾
Xoma Corp		4	1789	8¾	8¼	8½	+¼
Yellow Fr	0.94	21	278	27¾	27¾	27¾	-¼
York Rsch		7	554	7⅛	6¾	9⅞	
ZionsUtah	0.84	12	130	17	74¾	76⅛	-1½

MONDAY INTERVIEW

Inside job will make a change

Derek Lewis, director-general of the UK prison service, speaks to Raymond Snoddy and John Willman

When Derek Lewis, chairman of the UK Gold satellite television channel, was chosen as new director-general of the prison service, no one could resist referring to Porridge, the classic prison comedy, as the link between two worlds.

For Lewis was the man who had set up the channel, which is based on repeats of BBC and Thames Television programmes, including Porridge.

The appointment sounded like fiction itself. Could a television executive be taking on one of Britain's most intractable social problems without having visited a court or a prison: a man whose only knowledge of the subject came from the media?

In fact, Lewis had only been a television executive for a few months – successfully taking on the job of raising £35m for UK Gold and getting it on air two months ago, before planning to move on.

For 14 years he was a senior executive at the Ford motor company, then in charge of planning at the Imperial Group in pre-Hanson days, before becoming finance director and later chief executive of the Granada Group in charge of motorway services, television rental, computer services and Granada Television.

But even so, how did someone who koew about cars, motorway service stations, reotal, computer services and television, but oot prisons, become director-general of the prisoo service and the bome secretary's chief adviser on prison matters?

The call came in August, wheo Lewis was still struggling to raise the finance for the new television channel. It came from Saxton Bamfylde, the headhunter which specialises in persuading private-sector executives to take large pay cuts to work in the public sector. "More clout, less dosh," is how the company puts it.

He was asked the usual question: did he know anyone, "and by the way, you wouldn't be interested yourself?"

"My initial reaction was that I wasn't sure if it was the right job at all. It sounded like the proverbial bed of nails. But I was persuaded to go and have a talk to them," says Lewis, 46, who will be paid £125,000 a year, plus a performance-related bonus said to be 35 per cent of his salary. It is vastly more than the salary of his predecessor, the much admired Joe Pilling, but still represents a significant pay cut.

The main question that preoccupied him was why he should want a job that, no matter what he did, would probably leave everyone unhappy – prisoners and prison officers; the public, which alternates between concern about security and inhuman treatment of prisoners; and the politicians, who wish the problem did not exist.

"What persuaded me was that there was an opportunity to effect real change – not to get everybody absolutely happy with what the prison service is doing, but to persuade the majority of those constituencies that it was much better than it had been a few years before," he says.

The television executive has been portrayed as the privatiser of the prison service – the hired hit man of Kenneth Clarke, the home secretary, who met Lewis twice before the appointment. "I think that is the way many people are likely to see me. It would be a misjudgment. I came to this job without a brief to implement large-scale privatisation," he says.

"My brief is to effect the sort of quality of improvemeots in the service demanded by the Woolf inquiry, which followed the 1990 Strangeways prison riot, and to deliver better value for money."

At least the new director-general of the prison service – and the future chief executive, when it becomes the Prison Service Agency in April – in England and Wales has oow been been in jail. Four jails to be precise. He was struck less hy the banging of doors and the turning of keys than by their complexity as social institutions and the relatively positive atmosphere.

His diverse industry experience will be necessary to run a system with an annual budget of £1.5bn, respooslbility for 41,000 inmates and staff of 36,000. He will be able, for example, to draw on his experience in managing operations such as motorway catering and TV rental shops, where standards of service have to be set and maintained across a geographically dispersed network.

Trevor Humphries

'An opportunity to effect real change'

In such circumstances, managerial autonomy within an agreed framework is the key to service quality, according to Lewis. He plans to continue the moves towards autonomy in the prison service, giving the people running the prisons more responsibility. Greater autonomy over recruitment and purchase of catering produce are likely.

PERSONAL FILE

1946 Born Nottingham.
1947 Educatad Wrakin College, Wellington, Queen's Collage, Cambridge, and London Business School.
1968 Ford Motor Co.
1978 Director of finance, Ford Europe.
1982 Director of corporata development, the Imperial Group.
1984 Granada finance director.
1988 Granada chief executive.
1991 Resigned from Granada.
1992 Developed and launched UK Gold. In December, appointed director-general of the prison service.

He will also be in charge of the programme to contract out aspects of prison management – two establishments are already managed by private companies, and bids have been sought for the management of the reconstructed Strangeways. He sees this as a tool for improving the service rather than an end in itself. He notes that this has already produced improvements in the difficult industrial relations environment.

The "nothing can be done" argument about prisons and prisoners, he believes, is giving way to a feeling that quite a bit can be achieved, particularly in tackling drug addiction and easing the difficult transition from captivity to freedom.

Much can be done, he believes, to alleviate prisoners' main concerns, such as improving visiting arrangements and facilities, allowing them to serve sentences closer to families, ending slopping out (in the prisons where there are currently no proper toilets) and providing more varied menus within tight budgets.

His priorities will include encouraging greater responsibility and accountability, determining the role of the private sector and, in answer to one of the findings of the Woolf report, providing more visible leadership.

At the end of his three-year term, which could be extended to five years, he would like to have implemented the main recommendations of the Woolf report, and have done something to reduce reoffending rates from the current 70 per cent. He also hopes to have changed the prison service to such an extent that people will visit the UK to see how prisons should be run.

His success will depend as much on his function as policy adviser to the home secretary – who will inevitably be looking for results – as on his management skills. He acknowledges that there are severe political and financial pressures on the service. But he says that steering through those will the same as managing a public company through external events such as takeovers, new legislation and changes in the marketplace.

Challenges are important to Lewis: be left Ford because he did not want to be on a "single track in a single industry". He left Granada because he had little choice: he became what many saw as a scapegoat for the anxiety over the future of the group caused by worries over its investment in British Sky Broadcasting and the loss-making move into computer services, both now seen as money spinners for the company.

He sees his departure from Granada as one of the vicissitudes of business life. (His compensation, at £590,000, was the sort of sum his new charges would rob a bank for.)

As a result of the Granada setback, Lewis has had "one very exciting job running a TV station and, second, the opportunity to do this [run the prison service]".

And, yes, he does like watching Porridge.

In real life, however, he will not only have to deal with Fletcher, the prisoner, and Mr McKay, the prison officer. There is also Mr Clarke, the politician, and dealing with him could be the most difficult task of all.

The solution is value added tax

MICHAEL PROWSE on AMERICA

It will be fascinating to see how Mr Bill Clinton copes with America's fiscal mess. President George Bush's final budget projects deficits of $300bn or more for as far as the eye can see. And these figures assume a freeze on discretionary spending in cash terms from 1995 onwards. On more credible assumptions, the deficit could soar to more than $400bn towards the end of the decade. The US thus faces a gaping – and seemingly permanent – hole in the budget, equivalent to perhaps 4-5 per cent of national income.

A gap of this size means that Mr Clinton cannot possibly honour all of his campaign pledges. He cannot apply a short-term economic stimulus, halve the budget deficit over four years, sharply increase federal investment spending, and reduce the tax burden on middle-income families.

With economic recovery apparently more firmly established and retailers basking after a bumper Christmas, you might think the short-term stimulus would be dropped without hesitation. But Mr Clinton's advisers are aware that consumption cannot run ahead of incomes indefinitely. They were doubtless disconcerted by Friday's employment figures, which confirmed how pitifully few jobs are being created. Employment is such a delicate issue that Mr Clinton may feel he has to cover himself with a modest stimulus package – including an investment tax credit and accelerated infrastructure projects – even if the annual cost is restricted to only about $20bn.

The longer-term imbalances are far trickier to handle, in part because Mr Bush indulged in his own, unsung brand of Clintonomics. In the past four fiscal years, federal spending has risen nearly 30 per cent, about twice as fast as revenues. This surge is not fully explained by growth of "entitlements" such as federal healthcare (up 63 per cent). Mr Bush also spent generously on programmes dear to Mr Clinton's heart. Spending on education and infrastructure, for example, have gone up by 38 per cent and 34 per cent respectively. This is far ahead of broad price indices which have risen by about 15 per cent over the four years.

Mr Clinton will thus be forced to scale back plans for additional spending. This will be no bad thing. Infrastructure experts are already telling him that, with Mr Bush's transport projects coming on stream, it will be difficult to spend the extra $20bn a year promised during the campaign. But even if Mr Clinton scales back his spending plans, the fiscal dilemma remains. Given the range of social problems he hopes to tackle, he seems certain to spend more than allowed for in the final Bush budget. And he will not cover the excess by taxing the top 2 per cent more heavily.

Moreover, Mr Clinton will not quickly be able to announce a scheme for capping the fastest growing portion of the budget – entitlements such as federal health spending. This will be feasible only after lengthy negotiations on national healthcare reform are completed, which may take a year or more. And the fact that Mr Clinton wants greatly to expand healthcare coverage means that the savings from new spending controls may prove disappointing.

He thus seems to be left with only two courses of action. The soft option is to argue that Mr Bush left the shop in such disorder that a big reduction in the deficit over four years is, regrettably, impossible. A populist Mr Clinton would promise to hold the deficit at about the current level and explain that it would still fall steadily relative to national income.

If the cyclical recovery takes hold, the economy may well grow at an annual rate of near 3 per cent over the next four years, which would bring down the jobless rate, considerably brightening the public mood. With prosperity seemingly restored, voters would probably forgive Mr Clinton for failing to reduce the deficit. But such a populist manoeuvre would ignore the crying need to raise the US national savings rate and be a cruel deception in the longer term. If Mr Clinton puts the nation's economic health first, he will not delay budgetary action yet again.

Pushing ahead with the tough reforms needed to reduce the growth of entitlement spending is essential. But Mr Clinton also needs to build public support for new sources of federal revenue. There is obviously a strong case for a higher tax on gasoline but the political opposition to a sizeable increase would be intense. It would be easier to raise taxes a little on a wide range of commodities.

The bold course would be to establish a bipartisan commission to assess the case for a national value added tax. A broad VAT levied at about 7 per cent would raise more than $150bn, enough to make a real dent in the deficit.

Enactment of a VAT would reverse a decades-long slide in the relative share of consumption taxes, and belatedly move the US into line with other industrial countries, none of which could finance social programmes without the tax. It would be a levy on spending rather than income and thus minimise the disincentive effects on capital formation and growth.

Deficit hawks on Wall Street would be delighted: the mere announcement of a VAT commission might slice half a point off long bond yields. And come 1996, Mr Clinton could claim to have dealt in statesmanlike fashion with the most pressing economic problem of his time.

The unstoppable Europe

IAN DAVIDSON on EUROPE

Despite the grandiose trumpetings of tbe glorious achievement of the single market, this does oot really seem a very cheerful new year for Europe. The European Community's programme for monetary union is being swept on to the rocks by speculative forces; the continent is gripped in a seemingly interminable recession which in some cases may yet be deepening; many of its governments are in trouhle, and most of them deserve to be; and then there is the barbaric war in Yugoslavia.

If the Maastricht treaty seemed a year ago to offer a bold and ambitious vision of the future, the excitement it generated seems now to have heen destroyed by the onslaugbt of reality.

The mood of Euro-pessimism is oot sbared by Mr Lester Thurow, one of America's leading celehrity economists. Mr Thurow is not merely convinced that European integratioo is unstoppable, and will lead *inevitably* to monetary union hy the end of this decade; he also expects that Europe will he tbe world's dominant ecooomic force in the 21st century.

Behind these predictions, set out in his latest book*, there is one fundameotal assumption. The world will comprise three economic hlocs based on managed trade, centred on Europe, America and Japan, rather than a completely open global economy. These three blocs will be pitted against each other in a strategic economic struggle in which Europe is likely to come out on top.

Perhaps Mr Thurow extrapolates too fast: he implies the Uruguay round is bound to fail, and that therefore Gatt is dead. Yet even if this actual negotiation succeeds, it is difficult to believe western industrialised countries can indefinitely accept the political consequences of a totally free global market, either for their domestic wage levels or for their social security systems.

The key to victory in the coming three-way economic struggle, according to Mr Thurow, will be the ability to adapt to the new challenges. Here is the unexpected twist in his analysis. Japan and America hoth have enormous strategic strengths, but hoth of them will have difficulty in adapting. Europe will have the hest chance of coming out on top, he thinks, because it will not be ahle to avoid making the necessary changes.

America must reduce consumption and the deficit and increase investment; it must reform its abysmal school system; and it must downgrade financial short-termism and upgrade concern for human resources.

Japan must convert from export-led growth to domestic-led growth (because the rest of tba world will compel it) and accept all the consequences of a regional market in the Pacific, including freedom of movement and investment.

The European Community has two imperatives: it must go to the end of the logic of economic integration; and it must embrace the emerging market economies of eastern Europe.

Each of these challenges will be very difficult to meet. The key difference, in Mr Thurow's analysis, is that Europe cannot avoid doing what is required.

"In the end the Europeans will do what is necessary to complete the integratioo of the countries now in the Common Market . . . not because they are wise and far-sighted, hut because they have no choice . . . History and human nature tell us that it will be far easier for the Americans and the Japanese to avoid doing what they must do if they are to win."

It is easy to predict that America will procrastinate hefore its hard choices, hecause that is what America has been doing for several decades. Japan, on the other hand, has proved remarkably dynamic and adaptable, and may continue so. Where Mr Thurow is most provocative is in his assumption that tbe European Community *must* pursue the right strategy, of integration and enlargement, because it has no alternative.

A Euro-pessimist might feel events were pointing in the opposite direction. The Maastricht treaty has been voided of much of its significance, the plan for monetary union looks in ruins, and the existing exchange rate mechanism is in danger of being destroyed by the markets. Negotiations to admit new members from Efta will start soon, but the benefits of a larger market could easily be offset by declsioo-makiog paralysis.

A Euro-optimist could make a different analysis. The storms that have been battering the European Monetary System are essentially salutary, because the system in its preaent balf-way house is inherently unstable, and the financial and political stress thrown up hy market pressures merely prove the need to strengthen it.

If the ERM does fall apart, the member states could revert to flotation. But the case for eventual European monetary union (Emu), as a component part of the single market, remains as strong as ever. Strengthening the system so as to make it less vulnerable will not be easy; but it is likely to be less unattractive to the core states than free floating or exchange controls.

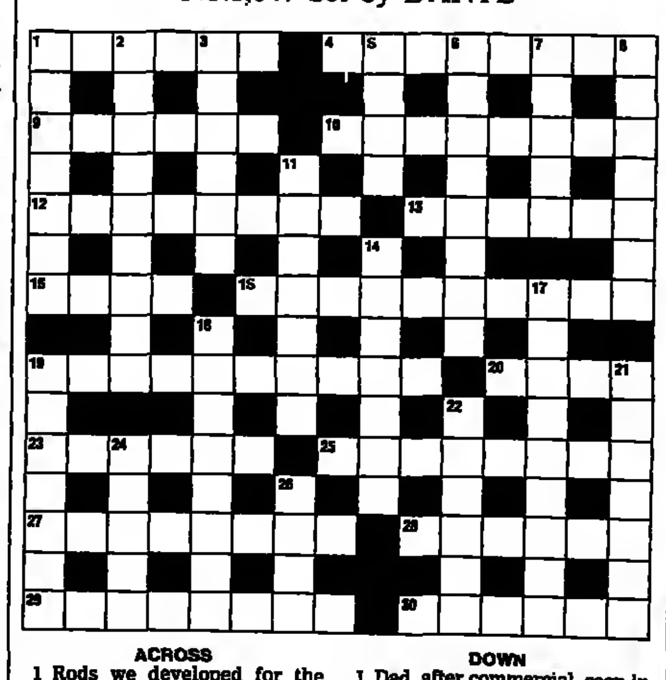
Even if Emu were put on a back hurner, that would not invalidate the much hroader array of convergent interests that have driven the European movement for tbe past 40 years. Each phase of integration will be politically more stressful than tbe last. But since it is virtually impossible to imagine the core states wanting to put the process into reverse, one must suppose they will gradually solve the difficulties of going forward.

On one point Mr Thurow must be right: the Europeans may go forward; or they may go backward; what they cannot do is avoid making choices.

**Head to Head: the Coming Economic Battle Among Japan, Europe and America by Lester Thurow. Nicholas Brealey Publishing. £9.99, 336 pages.*

CROSSWORD

No.8,047 Set by DANTE



ACROSS

1 Rods we developed for the diviner (6)
4 Andy's ooe to provide a non-committal answer (3,3,2)
9 Corrects the final part in a script (6)
10 Given, and ideally shouldn't be paid back (8)
12 Papers including long-range forecasts (8)
13 Head hranch (6)
15 High time for a Western (4)
16 Agree to keep in touch (10)
19 Dominant reason for a borse being tired? (10)
20 Sort of brake on the turntable? (4)
23 I set about some fisb (6)
25 Held firmly and beaten (8)
27 Feelings sbown by people put into some distress (8)
28 Almost lose sight of the sprite (6)
29 A bob witb tbe bookmaker goes very quickly (6)
30 Decline to make a furtber grant? (6)

DOWN

1 Dad, after commercial, seen in study, expressionless (4-3)
2 Miserable? Cheer up! (9)
3 Charm, finish and musical ability (6)
5 Vessel missed entrance to channel (4)
6 Surprise shots in a melee (8)
7 Peg possibly owed a pound (5)
8 Given command (7)
11 Inferior articles that don't last long (7)
14 Stone jar with nickel lining (7)
17 Suddenly smile upon in a strange way (2,7)
18 A bit vulgar, perhaps? (8)
19 Overburden journalists with work (7)
21 New dance in church shows rhythm (7)
22 Promise not freely given (6)
24 Affair of one such as Othello, say (5)
26 Kind of bender tbe vanquished go oo (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday January 23.

ADVERTISEMENT

THE CZECH REPUBLIC

A supplement sponsored by the Ministry of Foreign Affairs in association with Bohemiae Foundation

"The opportunity is here for everyone"

Prime Minister Vaclav Klaus discusses his Government's future plans.

Question: *What role do you see the new Czech Republic playing?*

Answer: The Czech Republic will he a democratic, normally-functioning market economy and wants to be an equal partner with the rest of Europe. We do not divide Europe into Western, Central and Eastern Europe; we don't live with the old myths about making bridges between The West and The East. Definitely not.

Question: *When do you expect to conclude renegotiations about the Association Agreement with the European Commission?*

Answer: The Association Agreement is an interim measure and our interest is in a more substantial agreement; so I hope that we will get it signed as soon as possible. What I am aiming for is real integration with Europe, not just a temporary step.

Question: *What, in your view, are the economic and social priorities for the Czech Republic?*

Answer: I would argue that we have 'crossed the Rubicon' from an old social economic system to a new one; we are already a completely pluralistic democracy; and a free market economy. In fact our economy is at a level of liberalisation and deregulation which is comparable with most Western European countries. In this respect, our task now is to compete. We have already carried out the most spectacular and dramatic changes; by this I mean price and trade liberalisation. Our aims are to function normally, to finish privatisation and to start economic growth again.

Question: *Are there still obstacles in the split with the Slovak Republic which you have yet to surmount.*

Answer: The split is definitely a complicated issue; I don't think there has ever been a comparable model as to what is going on in this country at the moment. For instance, the property question sums up the divorce issue par excellence and there will inevitably be doubts, disputes and complications for some time to come. But in principle, we have already signed all the relevant treaties between the Czech and Slovak Republics.

How long we take to divide one piece of property or another will probably capture the headlines both here and abroad–but this will not affect the everyday functioning of the two countries.

The real issue is to minimise the loss of trade between the two countries, because we both suffered dramatically with the collapse of the former Soviet Union and the Comecon area; the consequent loss of output and employment was disastrous. As a first step, we have already signed a treaty on a customs' union.

Question: *Do you expect the two republics to stay close in the future?*

Answer: We have signed a really wide ranging network of treaties in various spheres of life and I hope we will both honour and follow them.

Question: *As the social consequences of your free market policies take effect, do you think the electorate will continue its enthusiasm to date?*

Answer: I don't think there is a better social policy than a vigorous and functioning market economy. Any attempts to create a social network on a non-functioning economic system are a nonsense.

Question: *There has been a low inflation rate of late and a stable Czech Crown. Do you see any problems ahead?*

Answer: Compared with the other newly liberated Central and Eastern European countries, our rate of inflation speaks for itself (see chart)–6% is a real achievement. Our annual inflation rate is therefore unique amongst post-communist countries and indeed is more comparable with Western economies than with Eastern Europe. It is something we must tell the world about.

On the currency issue after separation, we have suggested a three stage plan. Currency union is just the first stage–we plan to have a common currency of Czechoslovak Crowns (CSKS)–and the second stage is a technical conversion of the Crown into two independent currencies. When I say technical, there will be a parity of 1:1–and the third stage will be the floating of the separate currencies.

The question is not how long will we be able to keep a common currency. There is no timetable because it depends on the quality and style of the economic policies of the two republics. I disagree with those commentators who think that Slovak economic policy will dramatically change after the separation of the two countries. I suspect it will be much more pro-market than is generally forecast.

Question: *Have you plans to speed up the privatisation process?*

Answer: Privatisation is a major social and multi-dimensional process. It cannot be speeded up. It is something which has its own dynamics and there are so many dimensions to it that I don't believe it can be accelerated.

Question: *In attracting foreign investment, are you going to be offering special incentives?*

Answer: Artificial incentives would be inconsistent with our free market principles. Countries which are against the free market usually offer special privileges which create islands of prosperity, but this leaves the rest of industry at a disadvantage. Having lived for several decades in a crazy and inefficient world of irrational exceptions, we know this only too well.

Our main platform is to create level economic playing fields and I don't see any reason to lobby foreign firms over and above domestic businesses. On the other hand, I see real and substantial reasons for foreign investors to come to the Czech republic–this is a very liberal economic area with a stable macro-economic framework and a strong currency. We also have the advantage of a highly trained and educated workforce with low unit labour costs. These, I believe, are genuine long term incentives.

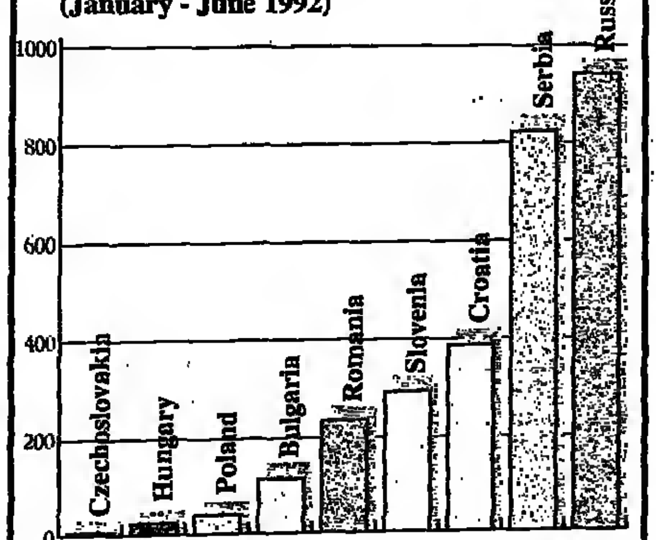
Question: *Germany has made the running to date on inward investment. Are you going to make special efforts to attract other countries?*

Answer: The fact that there are more German investors in this country to date is merely a question of geographical proximity. It is much easier for them to drive 50 miles by car than to fly 10,000 miles across the world. I am not frustrated by the fact that there are more German investors than from other countries. If you exclude their two or three biggest investments and compare the balance, the difference is not that dramatic. If we have a good business as far as investors are concerned, then the opportunity is there for everyone.

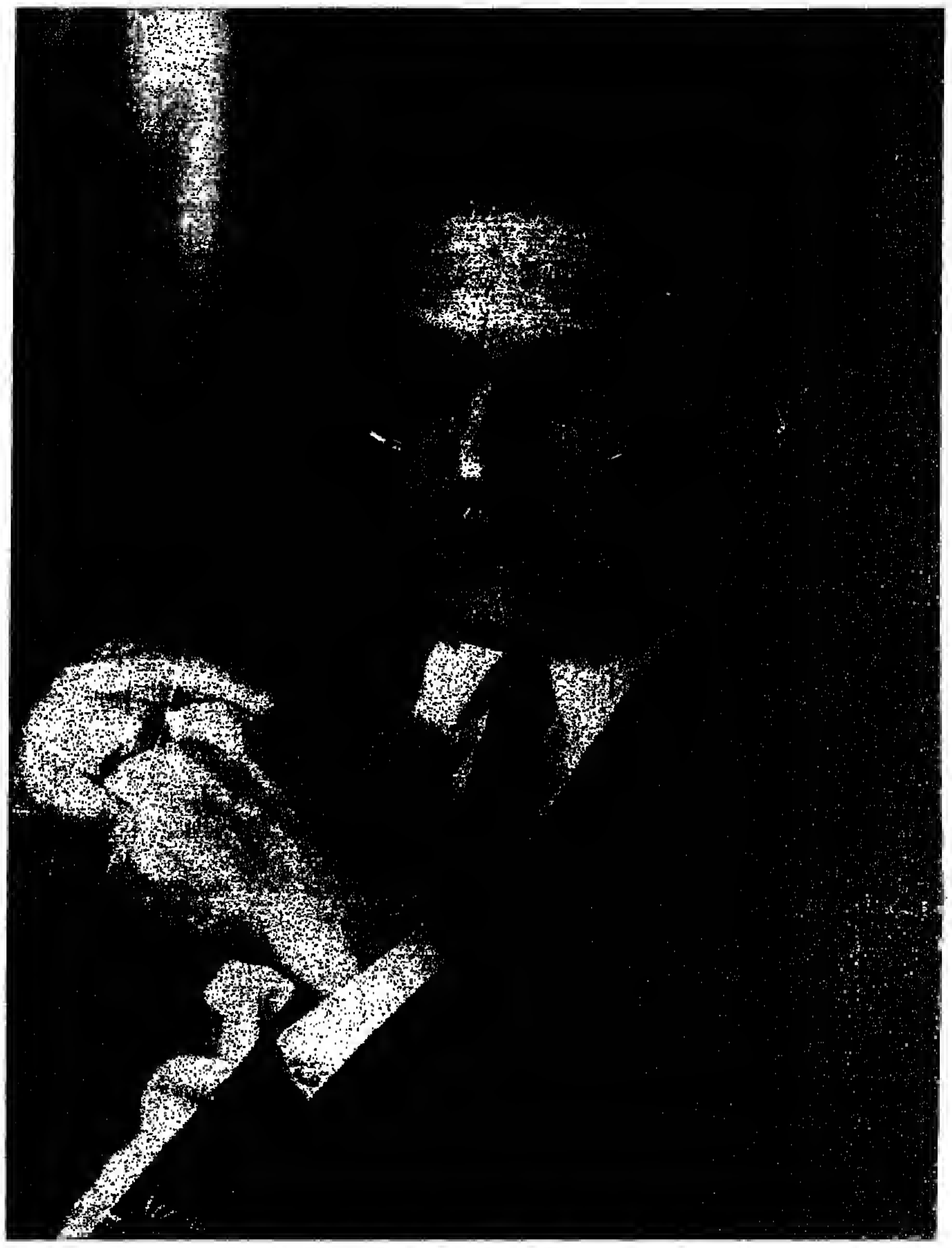
It seems to me that the Czech Republic is now visible to the world after four decades of lying behind the iron curtain. We try to present ourselves as attractively as possible but that does not include selling ourselves cheaply. When I review books, I sometimes find myself criticising the author for mixing up the short term and long term dimensions of an issue–short run gains may well be long term losses and therefore we are wary of economic myopia.

Interview by Graeme Howes

An Inflation Rate of 6% - a real achievement
(January - June 1992)



Source: Vienna Institute for International Economic Development



Vaclav Klaus: "I don't think there is a better social policy than a vigorous and functioning market economy."

A democratic Parliament now decides

THE Czech state has over one thousand years of tradition, and the newly created Czech Republic has close ties to the two democratic periods of this century. The first was the inter-war Czechoslovakia of President Masaryk, an oasis of democracy and prosperity in the turbulent Europe of the time. Although the political spectrum then was fragmented, from 1918 to 1938 democracy in Czechoslovakia was among the most stable in Europe.

The second decisive period for the establisbment of the Czech Republic was the three years after November 1989. In Bohemia, the democratic system was quickly re-established and two parliamentary elections were held, in which an exceptionally higb number of voters participated. By the end of 1989, the dissident playwrigbt Vaclav Havel had been elected president and a new government, primarily comprised of representatives from the Civic Forum, had been formed. This movement, *which deserved most of the* credit for the fall of communism, gained a majority in tbe two chambers of the Federal Assembly and in the Czech National Council in the 1990 elections.

The new gover○ment announced a sweeping program of privatisatioo and restitution (the return of property to tbe original owners), the lustrace, or screening, law was passed to remove representatives of the former regime from public life, and the building of the legal state began. The main initiator of economic reforms and then finance mioister Vaclav Klaus founded the Civic Democratic Party in 1991. This party contributed most of all to the stabilisation and clarification of the political spectrum.

The June 1992 elections made clear the different direction of the two parts of Czechoslovakia and the impossibility of maintaining the federation. The winner of the elections in the Czech Republic was a democratic, conservative coalition, and in the Slovak Republic, parties emphasising emancipation were victorious. The Czech government is now made up of a coalition of the Civic Democratic Party (ODS) and the Cbristian Democratic Party (KDS), who hold 38 per cent of the seats in parliament, the Civic Democratic Alliance (ODA), and the Christian and Democratic Union – Czechoslovak People's Party (KDU-CSL), each holding seven per cent.

Premier Vaclav Klaus' ODS holds the strongest position of all conservative parties in central and eastern Europe and has made its main impact in the economic sphere. All the coalition parties support the policies of economic reform and of subsidiary transfer of decision making to lower levels as well as bringing their individual political styles to bear upon Government policy through their respective ministries and portfolios.

The strongest opposition party is the Left Bloc (communist), with 17% of the seats. Other opposition parties include the Social Democrats, the Liberal Social Union – which is a coalition of Agricultural, Green and Socialist parties – Moravian HSD-SMS and the Republicans. Each hold fewer than 10% of the seats, and the last two barely exceed the 5% Parliamentary limit.

The formation of the Czech Republic is irreversible. It is now a parliamentary democracy with authority balanced between the executive and legislative branches, with a president and an independent judiciary and treasury. The governing coalition maintains that it is prepared to take further steps towards the reinforcement of democracy in the quest for prosperity.

Four tumultuous years of change

1989

• A peaceful demonstration hy students and Prague residents was held on November 17, 1989 – the fiftieth anniversary of the funeral of medical student Jan Opletal, who was killed hy the Nazis. Flowers, candles, and calls of "we don't want violence," faced a brutal attack by the Interior Ministry's emergency regiment and other police forces. That night, plans for a protest strike spread among the students who were joined hy actors and artists.

• The Civic Forum was formed two days later from a core of Charter 77 signatories, activists and other civic initiatives. Hundreds of thousands of Prague residents demonstrated daily for non-violence, human rights and free elections, giving the Civic Forum a mandate to oegotiate with the government.

• By November 27, a general nationwide strike was announced, the Jakes leadership of the ruling Communist Party fell and the government of Premier Adamec was forced to make concessions.

• By the end of the month, the article endowing the Communist Party with the leading role in the state was removed from the Czechoslovak Socialist Republic's constitution.

• In early December, when Premier Adamec established a government of fifteen Communists and five non-Communists, the public responded with more demonsirations. Students and artists continued their strike and the Civic Forum led further discussions.

• By the Day of Human Rights, the "15:5" government was replaced hy the National Understanding government, set up by Marian Calfa following Adamec's demise.

• Having named the new government, President Gustav Husak resigned, and on December 29 the Federal Assembly, chaired since the day hefore by Alexander Dubcek, unanimously elected Vaclav Havel president.

1990

• With the election of new deputies to the Federal Assembly, the Communist Party lost its majority in the main legislative body. February 1990 saw the State Security Agency abolished and the start of the Soviet troop withdrawal from Czechoslovakia began.

• In April, the Federal Assembly accepted the new name – Czech and Slovak Federal Republic.

• President Havel's speech to the United States Congress streogthened Czechoslovakia's international reputation and the Czech public welcomed Pope John Paul II to Prague and Velehrad.

• A massive 97 per cent of Czechoslovak voters participated in the June elections – which represented an unofficial referendum over Czechoslovakia's future – for Federal Assemhly representatives and the national councils. The Civic Forum and Public against violence in Slovakia won a majority of votes.

• Marian Calfa, Petr Pithart and Vladimir Meciar became the new premiers and Vaclav Havel was re-elecied president of the republic.

1991

• In January, the executive committee of COMECON, including Czechoslovakia, agreed to dissolve the organisation. This decision was officially ratified in Budapest the next month. Also in February, Czechoslovakia was granted membership in the Council of Europe, and with Poland and Hungary signed the Visegrad declaration on co-operation.

• Czechoslovakia took part in the Warsaw session of Warsaw Pact member countries, when a protocol cancelling the validity of all military arrangements, orgaos and structures was signed. The final dissolution of the Warsaw Pact was declared at the member countries' heads of state July session.

1992

• The Civic Forum split into the Civic Democratic Party, the Civic Movement and the Civic Democratic Alliance and together with a number of other political parties, campaigned for votes in the June elections.

• The Civic Democrats emerged as the victors of the June elections in the Czech Republic while the Movement for a Democratic Slovakia won in the Slovak Republic followed by the Democratic Left.

• Discussions over the country's legislative organisation in August, headed hy representatives of the governing parties, led to a jointly accepted agenda to divide Czechoslovakia. The date of the federation's dissolution 1 January 1993 was accepted.

• At the end of November, the Federal Assembly passed a law facilitating the federation's dissolution, which provided the framework for the common Czech and Slovak state to eod. It also granted the conditions for the development of future good relations between the Republics.

1993

• The Czech and Slovak Federal Republic was duly dissolved on 31 December and the Czech and Slovak republics stepped independently upon the world stage on 1 January.

THE CZECH REPUBLIC

Declaration of the Czech National Council to all Parliaments and Nations of the World.

The Czech National Council, being a freely elected legislative body of the Czech Republic and mindful of a millennium-long tradition of the Czech State, makes the following declaration:

■ The Czech Republic as of 1 January 1993 in accordance with its constitutional law and within the legal framework of the Bill of Dissolution of the CSFR adopted by the Parliament of the CSFR and as a successor state following the dissolution of the CSFR, will become an independent and sovereign state.

■ In the tradition of the democracies of the world, the Czech Republic will, in its internal and foreign policies and within the context of its laws, unconditionally honour the human rights and the basic freedom of the individual which create the basis for freedom, justice and peace.

■ The Czech Republic declares its intent to become a member of the Council of Europe as soon as possible and to become a contractual party of the European Agreement on Human Rights. The Czech Republic will respect all laws and obligations concerning national minorities in accordance with international standards.

■ The International relations of the Czech Republic will act in accordance with international law and will respect the aims and principles of the UN Charter, the final Helsinki Agreement and its subsequent amendments. As one of the legal successor-states to a co-founding member of the UN, the Czech Republic reaffirms its determination to respect the principles of this organisation and, within its framework, will continue efforts to strengthen peace and security and to achieve peaceful solutions to existing conflicts as well as to aid the search for solutions to the world wide problems of mankind.

■ The Czech Republic will assist in the development of cooperation in Europe aimed at creating an effective system of security. The Czech Republic will carry out all its obligations concerning the reduction of armed forces and armaments to a level adequate for defence and will support measures to strengthen multilateral and bilateral trust and stability.

■ The Czech Republic will create the political, economic, contractual and legislative conditions necessary for gradual association with and for future membership of the main European political, economic and other organisations. The Czech Republic confirms all its obligations undertaken earlier by the CSFR in respect of the Association Agreement with the European Community and expresses its interest in a rapid transfer of the aforesaid Association Agreement to the Czech Republic.

■ The Czech Republic will endeavour to extend its participation in the world economy and to seek continuous succession of membership of the International Monetary Fund, the World Bank, GATT and the European Bank for Reconstruction and Development.

■ The Czech Republic as of 1 January 1993, in accordance with the principles and within the framework of international law, recognises the provisions and obligations of all multilateral and bilateral treaties and agreements to which the CSFR was a party on that date.

■ The Czech Republic intends to establish diplomatic relations with other countries and to develop mutual relations on principles of sovereign equality, non-interference in internal affairs, respect for territorial integrity and political independence and inviolability of frontiers.

■ The Czech Republic will assume its share of the financial obligations of the CSFR towards third parties and international organisations in accordance with appropriate constitutional law and the Agreement between the Czech Republic and the Slovak Republic on Division of the Assets of the Federation.

■ The Czech Republic will pay special attention to its relations with the Slovak Republic. Agreements and treaties concluded between the respective republics will ensure bilateral co-ordination and cooperation to enhance the mutual ties between the two states and to benefit its citizens.

■ The Czech Republic is obliged by its Constitution through the votes of the deputies of its legislative body to develop itself as an integral part of the community of European and world democracies and accepts this commitment as the universal aim of its internal and international policies.

Václav Klaus
CR Premier

Doc. ing. Vaclav Klaus, CSc., was born 19th June 1941 in Prague. In 1963, he completed his studies at the Prague Institute of Economics. He also studied economic sciences in Italy (1966) and in the USA (1969). Up until 1970, he conducted research at the Economics Institute of the Czechoslovak Academy of Sciences (CAS). From 1971 to 1986, he held various positions at the State Bank of Czechoslovakia. In 1986, he started conducting research at the Prognostic Institute of the CAS. He is a member of the Mont Pelerin Society and was awarded the Schumpeter Prize for Economics. In February 1991, he received an honorary Doctorate degree from the Rochester Institute of Technology, and in May 1991, from Suffolk University in the USA. In December 1989, he was appointed Federal Minister of Finance, and in October 1991, he was appointed Vice Premier of the federal government. In October 1990, Vaclav Klaus was elected chairman of the Civic Forum (OF). After the breakup of the Civic Forum, he became the chairman of the Civic Democratic Party (ODS) in February 1991. After the parliamentary elections in June 1992, he was appointed Premier of the government of the Czech Republic.

Ivan Kočárnik
CR Government Vice Premier and Minister for Finance

Ing. Ivan Kočárnik, CSc., was born 29 November 1944, in Trebon, in the Kutna Hora district. He graduated from the Department of Currency and Financial Policy at the Prague Institute of Economics. Until 1985, he worked at the Research Institute of the Financial and Credit System. From 1985 to 1989, he was the director of the Research Department of the Federal Ministry of Finance. In January 1990, he became CSFR Deputy Minister of Finance. He is a member of the ODS, and after the parliamentary elections in June 1992, he was appointed Vice Premier of the government of the Czech Republic and the Minister of Finance.

Josef Lux
CR Government Vice Premier and Minister for Agriculture

Ing. Josef Lux was born 1 February 1956 in Usti nad Orlici. He graduated from the Agricultural College in Brno. During the electoral term from 1990 to 1992, he was Vice Chairman for the Environment of the Parliament of Nations of the federal parliament. In September 1990, he was elected chairman of the Czechoslovak Populist Party, and since March 1992, he has been the chairman of the Christian and Democratic Union - Czechoslovak Populist Party. After the parliamentary elections in June 1992, he was appointed Vice Premier of the Government of the Czech Republic and Minister of Agriculture.

Jan Kalvoda
CR Government Vice Premier

JUDr. Jan Kalvoda was born 30 October 1953, in Prague. In 1978, he graduated from the Department of Law at Charles University, in Prague. In February 1990, Jan Kalvoda was co-opted as a representative of the Czech National Council, and was elected as a member of its presidium. In the parliamentary elections of June 1990, he was elected representative of the Czech National Council, and in January 1992, he was elected vice chairman. He is the chairman of the Civic Democratic Alliance (ODA). After the parliamentary elections in June 1992, he was appointed Vice Premier of the Government of the Czech Republic.

Where to find the Ministries

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CR Minister for Justice
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THE CZECH REPUBLIC

A country whose history is woven into the fabric of Europe...

JUST 10 days ago on 1 January, 1993, a new country – the Czech Republic – made its debut on the European political stage.

But can this really be said to be the appearance of a new state, or merely the rebirth of a country of well-known European culture and history? Both statements would appear to be true.

The average European has preconceived ideas about Czechoslovakia: an independent state of Czechs and Slovaks established after the Austro-Hungarian Empire's disintegration at the end of the first World War. Czechoslovakia has been a political entity for 74 years, but in that time many have forgotten that the country encompasses two distinct languages, two separate cultures and, above all, two different mentalities. Nevertheless, the legacy of the old Czech kingdom and the heritage of Czech culture have left an indelible imprint on the culture and history of many European nations.

Good King Wenceslas, the King of Bohemia, has come down in English Christmas folklore and Danish children sing about the the Czech princess, Queen Dagmar.

The French and English know the story of the heroic death of the Czech king John at the battle of Crecy: and everyone knows the names Dvorak, Smetana, Janacek, and Martinu, who rank among the greatest European composers.

The Czech lands' central location in Europe led to an interesting paradox in its history. Situated at the very edge of the two major European centres – Rome and Byzantium – they were heavily influenced by these remarkable cultures, but because of their distance from the classical power centres the Czech lands emerged as a new centre – in the middle of the continent.

The first state in this region was the Great Moravian Empire, which was settled by Slavs, who built on the Celtic settlement which had blossomed there during the first millennium. In the second half of the ninth century, the Thessalonian missionary brothers Cyril and Methodius arrived and standardised a system of writing Slavic languages.

The history of the Czech lands begins with the rule of Prince Wenceslas the saint. Before Wenceslas, history disappears into the mythological legends of the first Czech dynasty, the Premyslids. Such mythology bears witness to both the age and the independence of Czech culture, because it reveals the earliest unadulterated condition of the culture: its historical ideal.

Gradually, the Czech state grew in strength through wars and co-operation with the Roman Empire. In 1212, during the reign of Premysl Otakar the first, it was recognised as a kingdom.

As the Premyslid dynasty drew to a close, the Czech lands gained control over far-flung territories in Poland, Austria and Hungary. Silver ore, mined in Kutna Hora, increased the kingdom's power. The silver groschen, minted under the last Premyslids, was accepted as a currency throughout Europe. This blossoming, was brought to an end, however, by the murder of the last king of the dynasty in 1306 and the marriage of the Premyslid princess Elizabeth to the ambitious John of Luxembourg, whose reign proved an unhappy one for the Czech lands.

The decline did not last long, however, John's son, the Czech King Charles – who was also crowned Charles IV as Emperor of the Holy Roman Empire – led the Czech lands to the height of their glory. Under Charles' rule, Prague became the most beautiful gothic city. A university comparable to Oxford, the Sorbonne and Bologna was founded. Unfortunately, all that remains of Charles' monumental works is the university and beautiful gothic buildings throughout Bohemia. All else – wealth, power, and influence – fell apart during the two decades of the religious Hussite wars which heralded the Reformation.

King George of Podebrady, elected from the domestic nobility, brought the kingdom out of the ruins of civil war and saved it from its more influential neighbours. George also originated a supranational system to preserve peace. It was, for its time, an unthinkably modern concept of the peaceful solution to disputes and of mutual opposition to the growing threat of the Ottoman Empire.

During the 15th and 16th centuries, the Czech lands were joined through marriage, first to Hungary during the reign of the Jagellonian dynasty, and then to Austria through the Hapsburgs.

Hapsburg attempts to rule Bohemia absolutely and renew Catholicism in Bohemia created conflict between the Czech nobility and the Emperor at the beginning of the 17th century. Dramatically expressed by the defenestration of imperial officials, this conflict marked the start of the Thirty Years' War. The revolt ended quickly and tragically for Bohemia. At the Battle of White Mountain in 1620, the domestic nobility was defeated, and the leaders of the uprising, numbering 27 lords, knights, and burghers including the rector of the university, were beheaded. The Protestant opposition was sent into exile. The Czech lands lost large numbers of the nobility and intelligentsia. Among those sent into exile was Jan Amos Komensky (Comenius), the famous founder of modern education.

After the defeat at White Mountain the oppression of the Czech lands increased, but, due to Hapsburg efforts to influence culture and religion, also gave Czechs a second wave of building: baroque. It became an example of stylistically pure baroque.

But, under the Austrian monarchy, the independence and wealth of the Czech lands was slowly eradicated.

The hard absolutism of the Enlightenment under Maria Theresa and Joseph II, who made German the official language, marginalised Czech culture and the language.

It is, therefore, amazing that a few enthusiasts emerged in the second half of the 18th century. They began to study the Czech language and the historic rights of the Czech lands and set in train a cultural revival.

During the 19th century, the language was revived, literature appeared, and modern Czech society was formed.

This process was characterised by a shift from peasant and artisan social groups towards the intelligentsia, which became the guiding force of the nation.

Czech society played the most significant role in the democratic developments of the Austro-Hungarian monarchy. At the same time, the diligence of the Czechs made the country the Empire's most successful industrial region.

Then in 1918, the Czechoslovak Republic declared independence, and the philosopher and sociologist Tomas G. Masaryk was elected its first president.

The Republic was created from two markedly different regions: the fully developed Czech lands and, the then, very poor Slovakia, which was unprepared for independent life.

But, thanks to democratic conditions in the Czechoslovak Republic during the 1930s, Slovak society made significant advances, and calls for Slovak self-determination were heard.

Any development towards an acceptable solution was, of course, halted by the events which sparked the second world war.

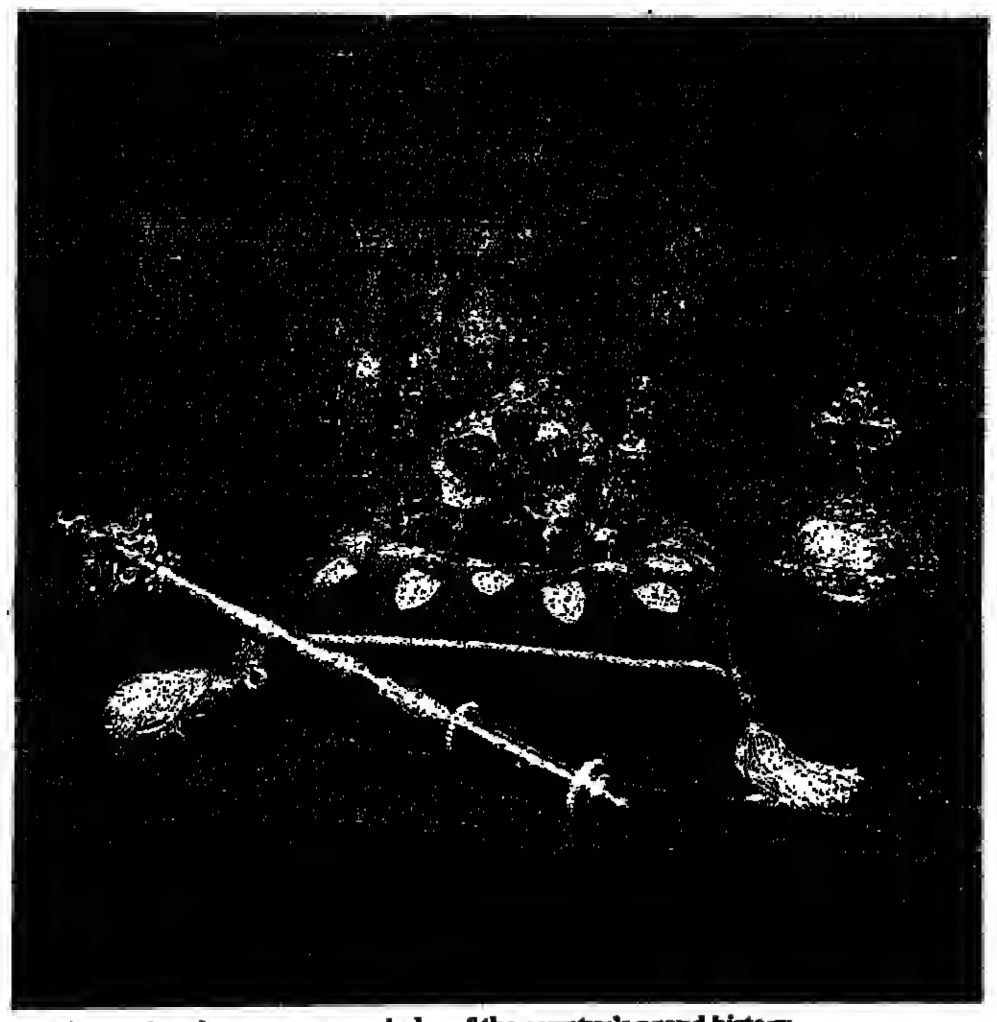
The Munich Pact, which ordered the surrender of territories inhabited by Czechoslovak citizens of German nationality – the so-called Sudeten Germans – was accompanied by the declaration of an independent Slovak state led by a clero-fascist regime. Slovak democrats fled into exile and to fight alongside Czech soldiers against Hitler's Germany.

During World War II, the amputated Czech lands were occupied by the Nazi army. The Czech resistance was carried out on two fronts. Czechs abroad fought primarily in the British army – airmen won glory in the battle over London – and on the eastern front as an independent force. At home, the resistance was punished by two brutal acts beginning on November 17, 1939, with the execution of students and the closure of the Czech universities and by the destruction of the villages of Lidice and Lezaky in retaliation for the assassination of the Reichsprotector Heydrich.

At the end of the war the Czechoslovak Republic was revived, albeit under the Soviet Union's heavy influence.

While the first post-war democratic elections were won by the left, they slowly lost support. As a result, the Czechoslovak Communist Party leadership, under instructions from Moscow, decided to prevent a second election.

After a successful coup in February 1948, the Communists seized full governmental power and installed a Stalinist regime. At the end of the 1960s, changes in the ranks of the Communist Party were accompanied by a reform movement, which was suppressed by the Soviet occupation of Czechoslovakia in 1968. Twenty years of totalitarian communism ensued, and was only overthrown in November 1989 – the fiftieth anniversary of the Nazi attack on students and Czech intelligentsia.



The Crown jewels serve as a reminder of the country's proud history.

Vaclav Havel: a viewpoint

Vaclav Havel is a founding spokesman of Charter 77 – the Czech human rights organisation. In 1979 he was jailed by the Communist government for four and a half years. He helped found the Civic Forum and served as the country's President from December 1989 until July 1992.

"Bohemia is a country in the centre of Europe. Since the ancient times mountain ranges by which it is encircled have formed its natural borders. Together with the neighbouring Moravia and Silesia it constituted for a thousand years an important state of central Europe, first a principality, later a kingdom, which was called the Lands of the Czech Crown. As a result of historical developments in the 16th and 17th centuries, that state became part of the Austrian empire. After World War I it united with Slovakia, which had until then been a part of the Hungarian Lands, to form an independent Czechoslovak Republic. This republic, which rid itself of a Communist dictatorship in 1989, is now peacefully splitting into two independent states, the Czech Republic and the Solvak Republic. The Czech Republic is determined to continue both the good traditions of the Czechoslovak state and those of the ancient statehood of the Lands of the Czech Crown. It will be a democratic state participating in all the European integration processes. In view of its rich spiritual and cultural heritage, traditional commitment to democracy and a fairly well advanced economy, which is undergoing an extensive privatization these days, good prospects can be envisaged for its future."

... located at the heart of Europe

A glance at any map will illustrate the Czech Republic's unmistakeable position in the middle of Europe.

Capital cities Berlin and Vienna as well as Bavaria's economic centre Munich are within 400km of Czech capital Prague. Warsaw and Budapest are just 200km further away with Strasbourg, the European Council's home an additional 20km. Brussels, Geneva, Paris and Lithuanian capital Vilnius are all within easy reach.

Tree-covered peaks create natural borders with Germany and Austria, into which the Czech Republic appears literally wedged, on its north, west, and south, making it simple to recognise the contours of the Czech Republic even on a map without designated national borders.

The border mountains no longer represent a barrier, permitting the Czech Republic to draw maximum political and economic benefit from its central European location.

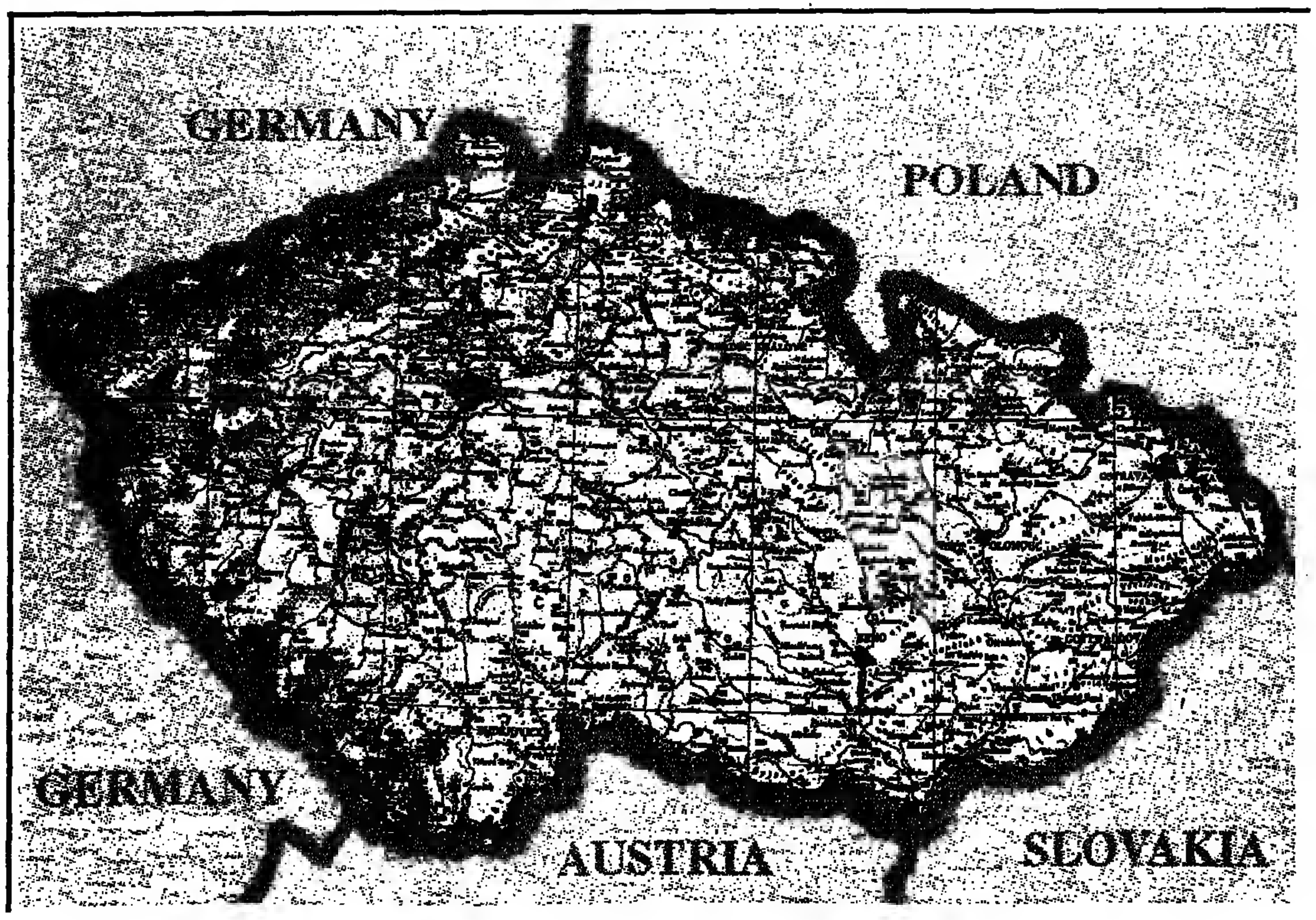
Following the 1989 democratic changes in eastern Europe, the elongated Czechoslovakia looked like a bridge for Europe, east and west.

The Czech Republic is not only unambiguously part of western Europe as a consequence of its location, but because of its democratic, cultural and industrial traditions. It meets all the requirements for its role as Europe's economic and political cross-roads. Czech involvement in groups such as the Visegrad Foursome and the Central Europe Initiative bear witness to the Republic's central role.

If accepted as EC members, this heart of Europe location should become even more valuable.

The Iron Curtain, only recently drawn from Bohemia's south and west borders, separated Czechs from more than democracy. It barred almost all relations with the west, including its traditional partnerships with Germany and Austria. Since November 1989, these cultural and economic ties have been renewed.

Its location permits the Republic to hook-up to energy networks with relative ease. The CIS Transit gas pipeline crosses Czech territory on its route west. Construction has yet to begin on connections to the Transalpine oil pipeline system. In the near future the former Comecon electrical system can be connected to the western European grid. While optical telecommunication cables should soon traverse Prague, connecting western Europe with the Balkans and, in time, Asia.



THE CZECH REPUBLIC

The Bata factory at Svit Zlín: putting shoes on feet throughout the world

Vladimír Dlouhý, Minister for Industry and Trade, offers an economic update

NINETEEN ninety-two was a successful year for the Czech economy.

The basic corner stones of the Czechoslovakian economic reforms namely, large scale price liberalisation, removal of individual company subsidies, tight fiscal policy and current account convertibility of the Crown were laid in early 1991. While they produced significant inflationary pressures these were more than offset by a budget surplus supported by the government's continuation of restrictive monetary policies.

At the same time an ambitious privatisation programme was launched together with changes to both the structure of government and the legal framework of the Republic.

Inevitably real output fell dramatically, a situation aggravated by the huge loss of trade with the former Comecon markets. Nonetheless there are now clear signs that, after two years of reform, the recession has bottomed out and the Czech economy is one the upswing.

On the aggregate supply side, the rate of decline in industrial production has been slowed, while the construction sector showed an impressive 24% real growth during the first 10 months of 1992. This, together with the very dynamic growth of trade and services (especially tourism) resulted in constant GDP growth from January 1992 and the year on year drop will not exceed 6%. On the aggregate demand side, real consumption (excluding services) increased by 20% in both the second and third quarters of 1992. Investment activity re-emerged and while public consumption is still stagnant due to budgetary restrictions, exports have increased substantially.

Inflation is now fully under control. After huge price increases during the first half of 1991, Czechoslovakia (and by implication the Czech Republic) now has the lowest rate of inflation of all central and east European countries. This is an important factor for both domestic and foreign investors alike. Unemployment in the Republic is very low, slightly below 3% at the end of 1992. There are obvious regional differences but in the second half of 1992 for every 15 unemployed there were 10 vacancies. Real wages have increased by 11% and as of January 1993 the upper limit on wages has been removed in the Republic.

Czechoslovak foreign trade was severely effected by the collapse of the markets in the former Comecon countries. Nevertheless, since the second half of 1991, a remarkable shift in the geographic structure of exports has occurred. In 1992, the overall volume of exports increased by 4-6% compared to 1991. Exports to the market economies grew by more than 20%, while exports to the former socialist countries fell by a further 40%. Total volume of imports increased by almost 20% during 1991. In 1992, EC countries took around 50% of Czechoslovak exports and the overall share of market economies, including developing market economies, is around 76% versus 61.9% for 1991.

The Trade Balance for 1992 was in deficit. However this was more than counterbalanced by the trade in services, thus generating an overall current account surplus. The Capital account had a smaller deficit and the overall

Vladimír Dlouhý

balance of payments was positive. Thus 1992 produced a substantial increase in Czechoslovak foreign exchange reserves, which now cover more than 6 months imports. By implication, this supports the stability of the Czech crown and allows for the continuation of the government's policy towards its full convertibility.

In 1992 the Fiscal policy of the Czech republic succeeded in controlling government expenditure, another distinctive feature of the Czech economy compared to other former communist countries. Transfers to companies were substantially reduced during 1992, while household transfers increased. During the first three quarters the state budget was in surplus: however, during the last quarter it went into deficit, thus producing a balanced budget for the full year.

Monetary policy in 1992 was of a slighly expansionary nature, when the increase in M2 (33.2% in October 1992 compared to the same period of 1991) was higher than the level of price increase. This was due not only to the increase in credits, but also due to the increase in net external assets of the banking sector. Short and medium-term credits to the private sector prevailed, while the credits to the state-owned sector diminished substantially.

The Macroeconomic stability of the Czech economy is illustrated by the dichotomy between the state-owned and private sectors. The former suffers "pre-privatisation agony" (high levels of debt and weak management) and faces large scale bankruptcies, while the latter is starting to produce the first signs of economic growth. In selected sectors of the economy (coal mining, energy and metallurgy) the Government has supported restructuring with the objective of rapid privatisation.

Macroeconomic stability remains the government's priority for 1993, together with other policy initiatives aimed at privatisation, the opening of the financial and capital markets, liberalisation of imports and export promotion. The government is ready, within the constraints of its budget, to participate in the financial restructuring of large industrial companies. The tax reforms that were introduced on January 1, 1993 are viewed as one of the major acts of economic reform since the political changes in 1989. Support to the small and medium scale enterprises will also continue along with the development of job creation and regional policies.

In summary the Czech economy is in good shape. Notwithstanding the split, the government of the new Czech Republic looks forward to 1993 with confidence. Although inflation may grow at between 15% to 18%, 80% of which is because of the one off effect of the imposition of VAT, we forecast a GDP growth of between one and two percent, unemployment of around 5% and a balance of payments surplus for the year.

New lifestyles for a new age: changing Czechs

CZECH lifestyle has dramatically changed as a consequence of the political and economic upheaval that has transformed the country since the Velvet revolution Of 1989 Previously rooted in socialist egalitarian ideotogy, it bore little resemblance to the western way of life. Uniformity, not only ideological, but covering all aspects of everyday life was enforced by the governing Communist Party.

The collapse of the communist regime sent a shock wave through Czech society which had been conditioned to a drab and grey existence. Different social groups reacted to the sudden ideological and political freedom with varying degrees of intensity and economic reform, leading to the introduction of a market system, has had a dramatic impact on every individual. Ownership was divided between the state and private sector, and socio-economic classes began to emerge as a result of the reintroduction of the wealth creation process.

It was this restoration of the principle of private ownership which became the driving force behind the population's realisation that they are responsible for their own fate. This, in turn, has led to new life styles.

Minor factors attesting to these changes can be seen everywhere. On buses, streetcars, and subways, every other passenger is studying a foreign language. Fashionable clothes are now commonplace on Prague's streets. Judging by the attitude of workmen, it is possible to immediately recognise who works for the state and who is employed by a privatised company. Minor soccer clubs are suddenly suffering from a shortage of players.

More leisure: more pleasure

Indications of the changing life style are appearing in family life. People used to seek work in the areas where they lived, now families are moving to take advantage of better pay and more interesting careers. It used to be the case that both spouses in a marriage worked but increasingly women are staying at home with their children and their husbands are returning home from work late in the evening.

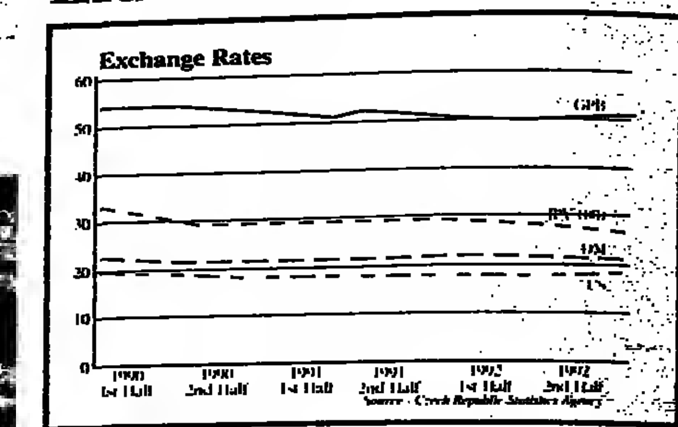
The basis of the new Czech life style is, in essence, this changing attitude to work.

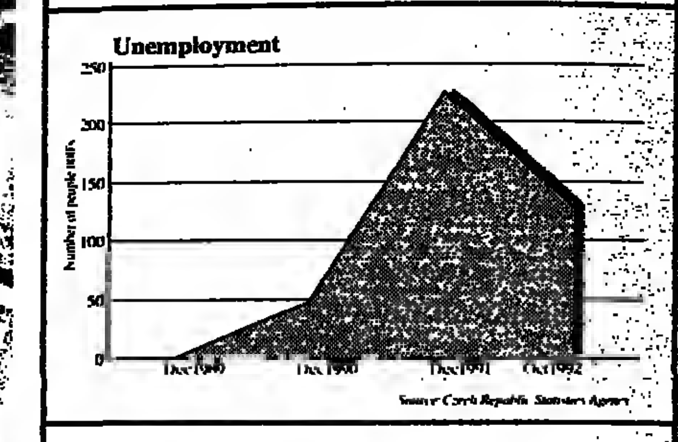
This trend is not progressing at the same speed and to the same extent everywhere - the pace is slower where the economic transformation is having an unfavourable impact on the standard of living or where artificial employment survives.

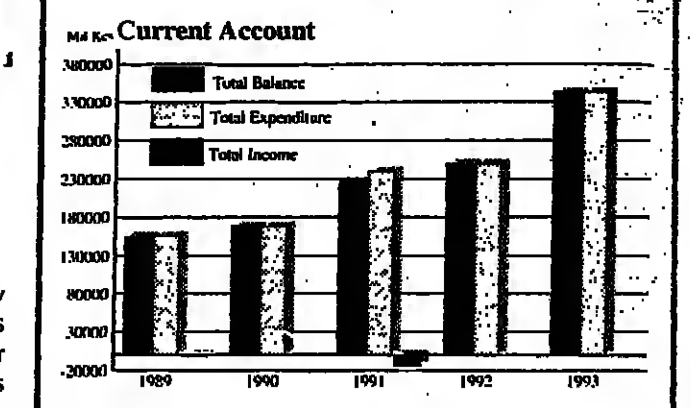
But the key factor is that jobs - to which the Czech people had a legal claim until 3 years ago, and which were not highly-valued - have become of paramount importance in the value system and are significantly influencing the style and quality of life.

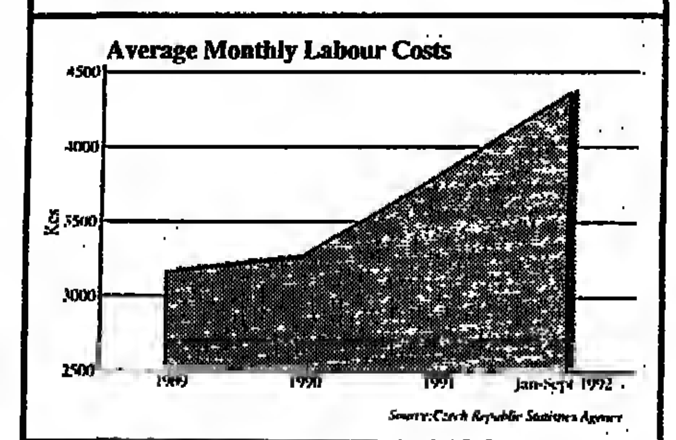
Economic reform and this change in attitudes that has gone with it, would never be possible, however, without spiritual freedom. This is manifest in the renaissance of university theology departments, the availability of previously proscribed books and the modified repertoires of theatres. But most impmortant of all the people now have choices and a specific life style cannot be imposed on anyone.

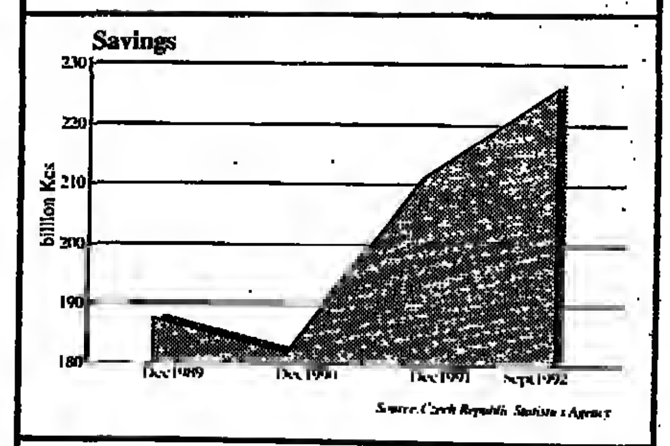
Key Economic indicators

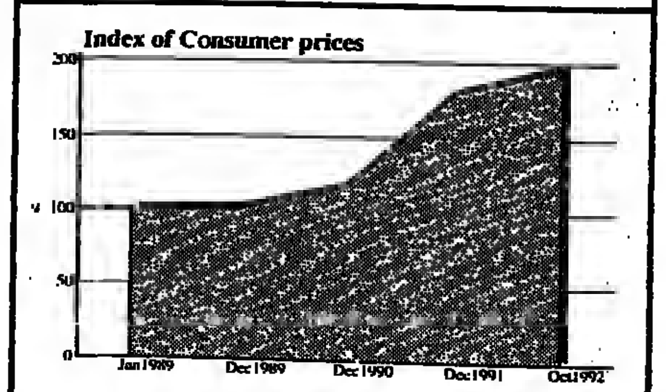


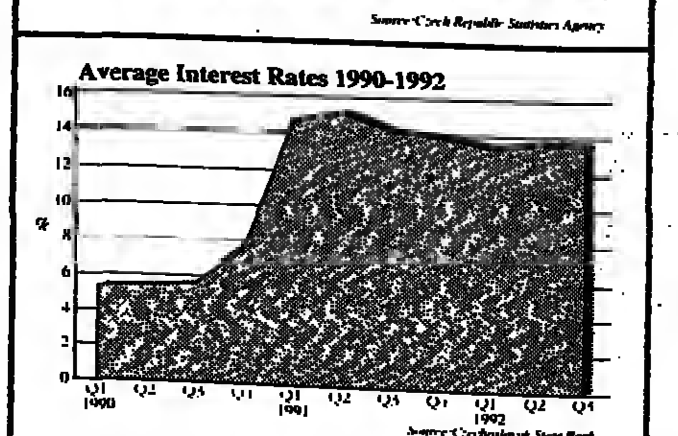


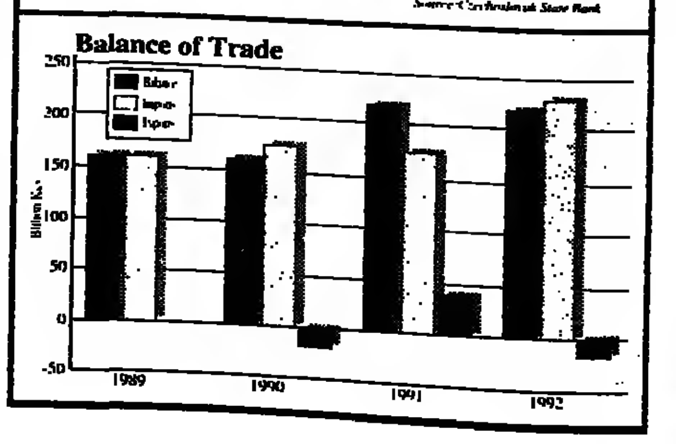












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THE CZECH REPUBLIC

November 1990: George Bush appears before the Federal Assembly, the first US President to do so.

Foreign policy covers all points of the diplomatic compass

Martin Weiss talks to Foreign Minister Josef Zieleniec about the agenda of the new Republic.

Question: *On 1 January 1993 you became a government minister of a new European republic. How will the foreign policy of the Czech Republic differ from that of the Czech and Slovak Republic which, after all was a larger player?*

Answer: You can see the changes in foreign policy from a quick glance at the map. Two new countries now exist in somewhat different geopolitical situations. Such factors are among the fundamentals of foreign policy, regardless of the political orientation of the government in power. The Czech Republic has lost direct contact with the Danube region, the traditional route to south east Europe, and with the former Soviet Union. For the first time in our history, Hungary is no longer our neighbour. Also, as this country has grown smaller, the relative weight of our neighbours has increased. So our policy is now more markedly connected with the policy of the west and with the fate of western Europe than before. It is certainly a different position to that enjoyed by the former Czechoslovakia. But it can be seen as a return to the traditional position of the Czech lands.

Josef Zieleniec

Our general policy thrust towards integration with western Europe will now be much more straightforward. The Czech Republic's government coalition is more politically oriented towards the west than was possible under the Czechoslovakian Federation. The Federation combined a wide spectrum of political representatives from Bohemia and Slovakia and was forced to balance widely differing interests. The influence and attractive nature of the west, and of western European institutions, was reflected in Czechoslovakia partition. We owe European institutions a debt, they assisted Czech efforts to ensure the separation proceeded in an internationally acceptable manner. Neither new country wanted to do anything which would prevent its access to Europe. The peaceful course of the separation is also a victory for the European institutions and the values that they represent in our eyes.

Question: *What will be the impact on this region of the creation of two new Central European countries?*

Answer: There will be certain changes in emphasis. We were a member of the Visegrad Troika, which was an association of the former communist countries of central Europe - Hungary and Poland. We still have many common interests and, to a great extent, the same problems. The separation of Czechoslovakia has made the Troika a foursome - the Visegrad group. The new Slovak Republic has become a key force in this region since Hungary has no border with Poland and we have no border with Hungary. All such contacts must be made through Slovakia, the cross-roads of the group. Future relations between Slovakia and Hungary will determine how long the Visegrad group will hold together.

Question: *Do you believe that the partition is a blow to the Civic Democratic Party, or is it to their advantage?*

Answer: In recent years, especially in the election campaign, the CDS made great efforts to try and hold the common state together. We were the only party with members throughout the Federation. So obviously, the separation means that our efforts were not successful, but our lack of success is a symptom of a movement in the country, which has roots far deeper in history than the election of personalities or parties, in Slovakia or Bohemia. This process cannot be stopped. If the electoral results in Slovakia had been different, perhaps the separation would not have come about now or in this manner. But it was inevitable.

Nevertheless, it seems to me that there is a great difference between this movement and similar current attempts in other countries. Despite exaggerated passions, we came to resolution through the law and by mutual agreement. This alone is a great success for the ODS, and a great personal success for Vaclav Klaus.

Question: *Europe believed it had a moral debt to Czechoslovakia over its tragic fate after Hitler's Munich pact. Do you think this affection may fade?*

Answer: Czechoslovakia, or more precisely its communist government, tried to exploit such sentiments over the last 40 years. We wish to be judged on our own merits and are not interested in feeding philosophy to the people. This government is more concerned with the attitude towards life which is generally accepted in this country. We want to build foreign policy on the foundation of a healthy society, accepted by the world because of its decency and conduct. To achieve this end we do not need to draw on past grievances.

Question: *Don't you think that the only real chance for the new republic is a favourable economic environment?*

Answer: I have already stressed how important we feel it is that the country we build and the society we live in is accepted at home and abroad. So having an economy which functions well is essential. We do not want to travel the globe with an outstretched hand, begging. This is an integral part of our identity. We want to create a country which can afford to be self-confident. In order to be self-confident, we must be economically viable.

Question: *Czechoslovakia has the best macroeconomic indicators of all of eastern European countries. The Czech government is made up mostly of economists. The CDS election campaign was based on a successful anti-inflation policy, and the public reacted to this. Does this reveal some deeper cultural trait?*

Answer: Maybe. The government is made up of economists, which makes it a government with a solid economic basis for the future state, so our election campaign was valid. We want to build national self-confidence on this basis, not glorify the past.

Question: *Foreign newspapers have speculated that the Czech Republic may fall too far under German influence. Are you afraid of this?*

Answer: No. We have the chance to find a solution to the perennial problem of the relationship between a small and a large nation, a theme which resonates through our entire history. It is a situation which must be viewed in the context of the new face of the European continent and the process of European integration. For the first time in history, the relationship of a small country to a large country is subject to multilateral European discussion. It is realistic for us to have such a relationship with Germany. The move to an integrated Europe is an historical process which will not be completed in a matter of months or years. It will take decades, maybe centuries. But it gives us the opportunity to alter our relationship with Germany which many see as carved in stone. This is a truly historic chance.

Full speed ahead with the privatisation pioneers

PREPARATIONS for the Czech Republic's privatisation programme began in early February 1990.

Coupon privatisation whereby citizens would receive vouchers entitling them to shares in previously state-run concerns – was put forward as an ideal method for the new State.

The concept gained currency for the simple reason that the vast amount of state property and the very low level of personal savings largely excluded Czech citizens from purchasing state property.

If the pace of privatisation was dictated by the growth of savings, the process would last decades. Such a time frame was clearly unacceptable, the overriding political emphasis was for a speedy economic transformation.

To facilitate a rapid privatisation programme it was evident that a large part of the property had to be distributed free of charge. Coupon privatisation was, therefore, the only option.

Detailed preparation for coupon privatisation began in earnest in June 1991, after the enabling legislation was put in place.

The first step was to classify all state-owned enterprises into three categories: those that would be privatised in the first wave, those that would have to be liquidated, and those that, for the time being, would remain state property.

Companies designated for the first wave had to submit a project: the central document for the privatisation process. Citizens and overseas investors were given the opportunity to submit privatisation projects.

The response was enormous. The Ministry of Privatisation received 11,163 projects in respect of 2,883 enterprises with a combined book value of 767 billion Kcs.

Approval was given for projects relating to 947 joint stock companies, with total fixed assets of 330 billion Kcs and these went forward as coupon privatisations.

Registration of those who wished to become coupon share-holders – began in November 1991. Even the architects of the coupon privatisation system were astonished by the level of interest: 5.7 million persons registered.

Coupon holders could use their *1,000* allocated points to purchase shares in a specific company, or entrust them to one of the 420 new privatisation funds: 70 per cent opted for the second strategy.

Shareholders were found for all the proposed joint stock companies during the five rounds of orders which began in May 1992 and finished at year end.

This year an extra-exchange stock market will commence operations.

Approval of second wave projects, which will include health services, is now under way.

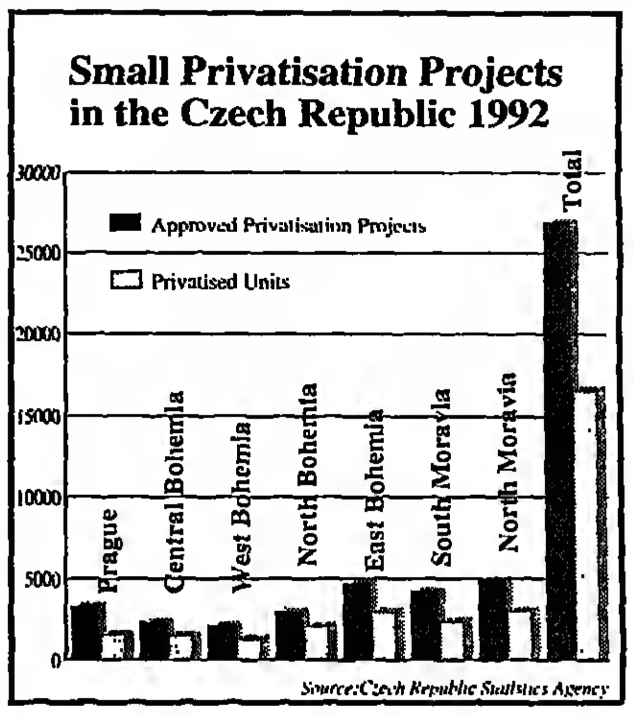
While coupon privatisation is the principle, it is not the only method of privatisation in the Czech Republic. The programme has four strategic goals. The first – based on the coupon system – allows citizens to become share-holders.

The second is the restoration to the original owners of property nationalised after 1948. Restitution has proved a very effective method of privatisation – more than 100,000 thousand properties have been restored so far. It also serves to underline the state's commitment to protect private ownership and to guarantee its inviolability.

The third goal is the creation of small and medium-sized enterprises. Now nearly concluded, this so-called "small privatisation" began two years ago and involves the public auction of small properties under the organisation of commissions in all 75 districts. Thirty thousand operational units were sold for Kcs 30 billion.

Larger properties were also sold on the basis of projects submitted, either directly, or as winners of competitions and auctions. So far about a thousand enterprises have been disposed of in this way.

The final goal is the introduction of foreign capital to the marketplace which, to date, has accounted for over US$1.8 billion of inward investment.



Inward investors welcomed as partners in prosperity

AS a measure of the importance attached to Foreign investment by the Czech Republic, Vladimír Dlouhý, the Minister of Industry and Trade has recently created a semi-autonomous body called CzechInvest, the Czech Agency for Foreign Investment.

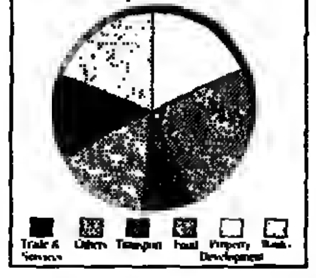
The role of CzechInvest is clear and ambitious. It aims to raise $10 billion of foreign investment in the Republic over the next 5 years and to do this will launch a major promotional campaign in early 1993 in conjunction with other government and non government bodies. The thrust of the campaign will be to present the Czech Republic as an attractive and strategic location for foreign investment to both manufacturing and service sector companies. CzechInvest will encourage both joint venture and greenfield investments.

The government has selected the following sectors as priorities for foreign investment:

- machine tools
- equipment for the automation of industrial production
- fuel and energy saving technologies
- development of a service sector infrastructure and especially tourism and financial services
- environmental projects

These priority areas are expected to be linked to regional policy and incentives may become available for investors in the short term.

Arguably the major underlying macro economic indicator which differentiates the Republic from other locations within the region of Central and Eastern Europe must be the exceptionally low national debt of $590 per capita. This figure can be compared with its nearest competitor, Hungary, which has a per capita debt of $2,150. Not only does low debt auger well for economic stability, despite the current changes being imposed by the economic transformation and constitutional reform, but indicates a relatively low tax base which will not have to service a large national debt, the ultimate monkey on the back of many developing, not to say developed economies.



Indeed this figure probably also reflects the credit rating of the Czech Republic being just under 50% compared to the world average of 37.9% and with another neighbour, Poland whose rating is in the 20's.

There are, however other factors of a more strategic nature that work in favour of the Republic. In the short term it is an attractive and cost effective base from which to supply and expand activities in existing markets. Then there is the opportunity to participate in a more of less virgin and rapidly growing domestic market. In the medium term the opportunity exists to use the Republic as a base from which to penetrate the old Comecon markets where commercial and trading links are already established.

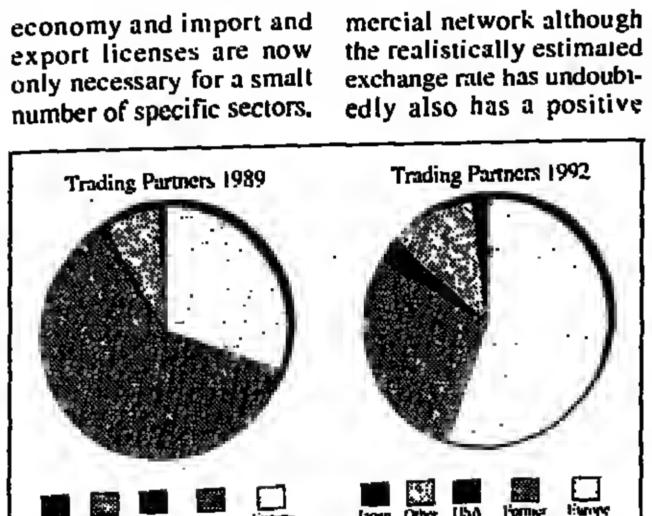
To date foreign investment has been concentrated principally in joint ventures and acquisitions following the privatisation process. In 1991 US$ 640 million was invested, 80% of which came from Germany. Estimated investment for the whole of 1992 will be a further US$ 1.2 billion with proportionately much greater investment from the US and France due principally to the controlling stake acquired in CSA by Air France and the purchase of Tabak, the state tobacco monopoly by Philip Morris. The UK has yet to become a major player in the Czech market.

Prague goes West for trade

AFTER the break-up of traditional and predominantly eastern – commercial markets, Czech foreign trade has begun to recover sooner and faster than the economy as a whole.

The turnover from foreign trade began to increase in 1991, a consequence of the "double" liberalisation of foreign trade. Liberalisation firstly in the sense of the liquidation of state monopolies, which opened the door to foreign trade for hundreds and thousands of new, private businesses, who have access to convertible currencies under the current system of internal convertibility of the crown.

Secondly, liberalisation as regards commercial exchange abroad: the Czech Republic has a truly open economy and import and export licenses are now only necessary for a small number of specific sectors, like arms.



The shifting patterns of Czech trade

The use of this access to convertible currencies is best illustrated by the wide assortment of western goods in the Czech commercial network although the realistically estimated exchange rate has undoubtedly also has a positive influence on exports.

The positive development of foreign trade has been aided by the Czech Republic's new international trading partners, who have scrapped the discriminatory regulations formerly applied to Eastern bloc countries. Today, the Czech Republic is already classified into the so-called GSP (general system of preferences), which has substantially reduced duties on Czech goods delivered to advanced economies. The United States provided the long-withheld most-favoured nation status, and an interim trade agreement was concluded with the EC, effective as of March 1992, within which duties on some export items were cancelled. It is anticipated that both parties will cancel both tariff and non-tariff barriers during the course of the next eight years, thus creating a free trade zone. A free trade agreement was also closed with EFTA.

The structural change-over of Czech foreign trade, with its new western bias has had internal as well as external ramifications. In 1990, the EC accounted for about 30% of Czech exports; in 1992 this figure grew to slightly over 50%. The EC held only a somewhat smaller relative share of Czech imports. In 1992, more than 86% of the Czech foreign trade turnover was with Europe as a whole, and the American share was 4.4%. However trade with the USA nearly doubled following the granting of most-favoured nation status. At the same time, trade exchange is growing at an above-average rate with, for example, Israel, Singapore, Taiwan and many other countries with whom there had formerly been no contact at all. According to initial estimates, foreign trade turnover was 457 billion crowns in 1992, approximately 50% more than in 1990.

THE CZECH REPUBLIC

Ostrava: home of heavy industry and the centre of culture and commerce.

A determination to integrate with European transport infrastructure

CZECHOSLOVAKIA'S entire infrastructure was, until 1989, geared towards transportation within the state and to points east. The main task of the new Czech Republic must therefore be to capitalise on its central location in Europe and link its infrastructure to neighbouring states.

The Czech Republic has a rail network of 9,500 kilometres, 362 kilometres of motorways and 55,517 kilometres of roads as well as a network of waterways. In 1991, 600 million tonnes of freight and 4.5 million travellers traversed the intrastate system.

There is a general preference among citizens for public over private transport. In the cities, nine times more people use the bigh quality and inexpensive public network than private means. While, in the suburbs, the ratio of public to private transport is approximately three to two.

But the influence of private business is leading to a growth in the popularity of individual transportation.

In the freight transport sector, the decline in railway usage is noticeable because of the move away from the transport demands of the old centralised economy. In the last two years the Czechoslovakian State Railways, which split along with the Republics on 1 January, have carried some 30 per cent less freight (92 million tons) than in 1989. The greatest decrease has been in the mass transport of substrates, particularly building materials. This, together with state-regulated tariffs for personal and freight transport, has created great economic difficulties for the railways.

By contrast, truck transportation has improved to the extent that it now competes quite successfully with western European carriers. In Bohemia, there are 30,000 forwarding companies – of which 10,000 are international – with more than 50,000 trucks at their disposal. But this boom has created its own problems, supply now greatly exceeds demand.

CSAD, the former road transport monopoly, which used to provide an overwhelming majority of freight and personal transportation, has been largely privatised and restructured in the last year. From CSAD's ashes, a wide variety of transport companies – from nation-wide carriers to small flexible businesses – have risen.

Water transport is set to be an important element in the Czech's future infrastructure. Navigable rivers already allow for transportation of substrates in significant quantities. In the near future, water routes could emerge as a basic connection with Hamburg.

Meanwhile, Czechoslovakian Airlines – now 40 per cent owned by Air France – is to continue as the flagship carrier of the Czech and Slovak Republics, even after separation.

CSA's fleet has been revamped in the last year with new Boeing and ATR aeroplanes and is now among the most successful European airlines, carrying more than 1 million people last year, up 12 per cent on the previous year.

The growth of business activities and commercial links has seen road traffic increase markedly, putting the present road system under enormous strain.

The most pressing priority is the completion of the motorway from Prague to the German border and on to Nuremberg. This should be accomplished by 1997.

The second priority is for a motorway in the direction of Dresden. By the year 2000, 264 kilometres of motorway should have been added to the 362 kilometre already in use. Such plans require investment of some 30 billion Kcs, foreign and domestic private capital is expected to account for about a third of this.

A toll system on motorways is widely expected to replace the existing free network.

But railways will remain the backbone of the Czech transport system. To link with the European network, a new high performance connection will be builf from the north-west to the south-east borders of the country. Plans are for the railway to be quickly modernised and efficiency increased. Privatisation will be introduced as soon as possible, with multiple carriers, rather tban a single company operating on the tracks.

Elimination of the imbalance in competition between the individual transport sectors is key priority.

CSA takes to the skies in its new livery

North Moravia: the industrial heartland

NORTH Moravia is a region filled with contradictions. Bordering Poland in the north and the Slovak republic in the east, this area comprises botb the most fertile lowlands in the entire Czech Republic and the nations mining and heavy industrial heartland. Ecologically harmful industrial production metbods bave led to had environmental pollution in some areas. On the other hand, its forested mountains are among the best-preserved in the central Europe. North Moravia is tbe furthest region from Prague, and is populated not only hy Czechs but also several national minorities.

"Its forested mountains are among the best-preserved in the central Europe"

From an historical perspective, the region consists of the territory of northern Moravia and part of Silesia, located on the so-called European Watershed, with part of the territory belonging to the Odra River basin, wbich flows down to the Baltic Sea, and part belonging to the Morava River hasin, a trihutary of the Danube. The character of the region stems from the juxtaposition of mountains and lowlands, massive forests, and fertile fields, as well as from its villages and towhs.

"These new transport links with the rest of Europe should be of great benefit to the region"

The so-called Moravian Gate crosses the centre of the region, and is the only natural route from the Danube basin and southern Europe to Poland, the Baltic countries, and Russia. This potential transport thoroughfare has yet to be fully exploited. Construction of a Danube-Odra canal is at the planning stage, as are a high speed rail link hetween Prague and Slovakia, Krakow, Poland and the Ukraine; and an expressway from Vienna or Prague to Warsaw, and on to Moscow or St. Petersburg.

These new transport links with the rest of Europe should be of great benefit to the region. It is the most densely populated area of tbe Czech Republic with almost 2 million inhabitants to its 11,000 square kilometres. It is a young and dynamic region whicb has come into its own only in the last 100-150 years, mostly due to the development of the coal mining, energy and ferrous metal industries.

North Moravia is also the home of an array of diverse engineering enterprises producing railway coaches, machine tools, rolling mills, cement works equipment, coal combines, mining outfits and building materials, as well as electrotechnical, chemical, and textile plants. The famous Tatra trucks, produced here, bave performed well in the Paris–Dakar rally and are just one example of the industrial diversity of the region. North Moravia is also rich in Agriculture, ancillary grocery industries and forestry as well as flax processing and woodworking.

The heart of the region surrounds the Odra River. The largest cities are Ostrava (330,000 inhabitants) Havirov (90,000), Karvina (70,000), Fridek-Mistek (60,000), and Opava (60,000) and are mostly oriented towards coal mining and the ferrous metal industry.

Although Ostrava is the largest city in the region, and thus the natural centre of commerce, culture, social life and administration, the region is centred around Olomouc (100,000 inhabitants), which lies on a fertile, low-lying plain called Hana, approximately 100km from Ostrava. This is the historical capital city of Moravia, and is still a major industrial and transportation centre, and home to the region's University.

"There is great promise in the development of transport, communications, trade, services and tourism – economic activities all overlooked in the past"

The north Moravian mountains, Jeseniky and Beskydy, are the hest known centres for tourism in the region but visitors are also attracted to the numerous historical landmarks of Olomouc and a plethora of historical sites in other towns. There are many castles and ruins, fortresses and caverns (e.g. aragonite), as well as nature reservations, hunting reserves, shrines and churches.

However the region is not without its problems. Its heavy industry, much of which was engaged in the production of armaments, is overproductive for today's conditions, and must be cut back and restructured. These economic changes, which have already hegun to take effect, have adversely affected the region's standard of living which, outside Prague, was the highest in the country. Otber sectors of industry, where production was beavily Soviet oriented, are also undergoing restructuring, looking for new markets and changing their product lines. The high level of industrialisation has severely affected the environment, especially the air and water in the central part of the region aronnd Ostrava and a complete solution to this problem is still many years away. Despite such difficulties, unemployment is under control (under 5%) and there is great promise in the development of transport, communications, trade, services and tourism – economic activities all overlooked in the past.

"The home of an array of diverse engineering enterprises"

Privatisation and the development of small and medium-sized businesses in the region is well under way.

Step hy step, North Moravia is emerging from its recent isolation and forming new economic, cultural, and tourist links with the rest of the world. In neighhouring parts of southern Poland, which sbare similar conditions in many ways, efforts are heing made to form a Silesian Euroregion.

The main resource of the region is the North Moravian people. Three years ago, they won the right to political freedom and democracy, and today they are co-founding a period of economic prosperity for tbe Czech Republic. They are determined not remain in the background but to emerge at the forefront of Czech industrial regeneration.

An embarrassment of tourist riches

WITH its wide variety of tourist attractions and its proximity to Germany and Austria, both countries where people spend a relatively large amount on foreign travel, tourism offers the Czech Repuhlic good prospects for tapping into a significant source of hard currency. While it does not have the natural conditions for winter and summer vacations on a large scale, like the Austrian and Swiss Alps, it is similar to the smaller western European countries, like the Netherlands, Belgium, and Denmark, which derive the greatest profit from foreign visitors' shorter trips and from city and convention tourism.

Prague, one of the most beautiful cities in the world, is the number one tourist destination in the Czech lands. It is already one of the most visited cities in Europe. Rapid investment in new hotels and restaurants, helped by large amounts of foreign capital, has so far heen unahle to keep step with the phenomenal growth in demand and hard-currency income from tourism is widely expected to rise still further in the future.

Future predictions point towards a suhstantial upsurge in profitable tourism to the spa towns in western Bohemia, like Karlovy Vary, Frantiskovy Lazne, and Marianske Lazne. In 1928, these three areas accounted for 62.5% of the entire country's tourist-related income in foreign currency. The unique status of these spa towns stems from the comhination of world-class health resort care and the rich cultural and architectural surroundings.

Another major tourist centre is the Moravian city of Brno, a city of international trade fairs and exhihitions, dominated hy a castle infamous for the political prisoners held there during the Austrian monarchy and Hitler's Third Reich.

The Czech Republic can also offer foreign visitors many other cities with well-preserved historical centres and valuable cultural monuments (Cesky Krumlov, Telc, Kromeriz) and many other beautiful areas of natural interest. It has a good transport infrastructure and an unusually lively cultural scene.

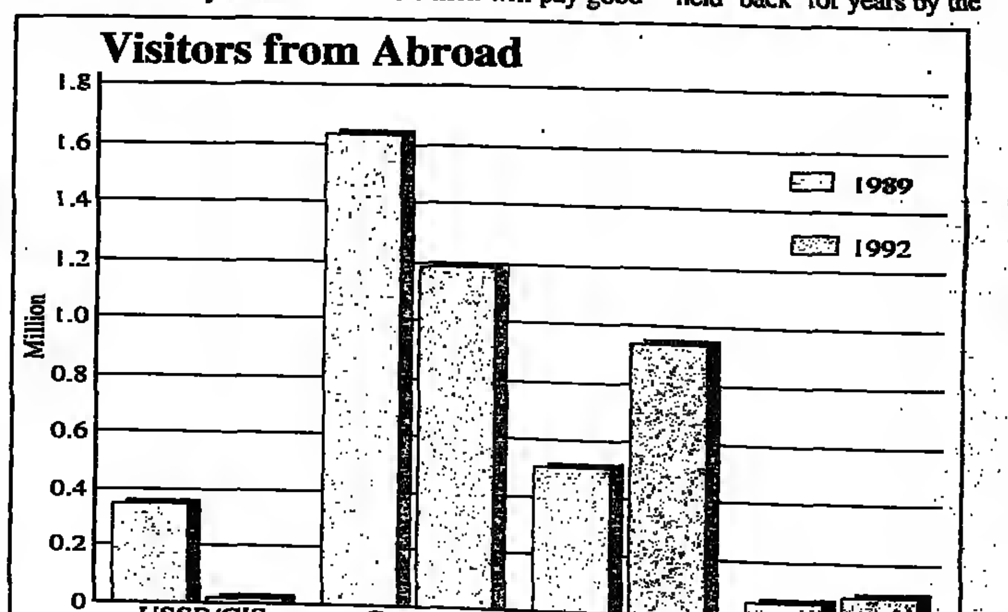
Although all of these positive features suffered a great deal during the forty years of the communist regime, a large amount both of domestic and foreign capital is being spent on their renovation, investments which will pay good dividends in years to come.

Since November 1989, the number of visitors from countries with convertible currencies has grown continuously and the foreign currency return this year already exceeds US$ one billion

Services for foreign tourists are highly profitable, because prices are quickly approaching western European levels, while expenses, especially labour costs, remain low.

The opening of the borders after November 1989 was not only a powerful motivation for travel to the Czech Repuhlic, but also influenced travel in the opposite direction. Czechs like to travel and this desire, held back for years by the communist regime, has resulted in a boom in travel related services such as the new travel agencies whicb are very much in demand.

After the liberalisation of the economy and its entry into the new markets, the Czech Republic will be ideally positioned to take advantage of a positive casb flow in the tourism sector.



Source: Czech Republic Statistics Agency

THE CZECH REPUBLIC

Prague: the jewel in the Czech crown

PRAGUE, the capital city of the Czech Republic, is located in a spectacular valley, on both banks of the Vltava River. It has always been the political and spiritual centre of the country. Prague Castle was the seat of the Czech kings, and Prague itself has witnessed all the historical convolutions in the life of the nation. Only three years ago, the "Velvet Revolution" began on its streets.

The first written information documenting, the existence of Prague dates back to 929 AD. Thanks to its location, Prague soon became a vital commercial crossroads, and soared to international prominence in the 14th Century, during the reign of the king and Emperor, Charles IV. On his orders and under his leadership, Prague's New Town was built on the right bank of the Vltava. The centre is Old Town Square, dominated by Prague City Hall and its world-famous astronomical clock.

"Since 1989 tourists have flocked to Prague in their millions"

Old Town Square, with its mix of Gothic, Baroque, neo-Baroque and Renaissance buildings, is the finest example of architectural diversity and beauty in Prague.

But Prague is not only a city of beautiful architecture; it is the cultural focus of the nation. There are the art collections of the galleries, including both the art of the old masters and of the modern artists like Picasso. These unique collections have been gathered over the centuries in dozens of Prague's libraries and museums and are brought alive amidst the historical beauty of Prague by a wide selection of cultural events. The world-renowned musical festival – The Prague Spring – the unique performances of tbe Laterna Magika (Magic Lantern), traditional Czech pantomime and the famous black theatre are all just part of the diverse cultural life of Prague. Dozens of new independently funded theatres and clubs have further enriched the already lively musical and theatrical scene.

Since 1989 tourists have flocked to Prague in their millions and, in return, Prague has invested heavily in its new tourist culture with new hotels, boarding-houses, restaurants, coffee houses and bistros springing up everywhere. The economic reforms have also spawned and array of new shops and private galleries and the historical centre of the city is being carefully restored to its former glory. In short, Prague is becoming more colourful and attractive every day.

Prague is also the economic centre of the republic. In addition to the central offices of state administration, dozens of domestic and foreign banks have their headquarters here, and a stock exchange is being created. Prague's geopolitical location is also perfect for political and economic conventions and important international meetings. (In February 1991, the permanent secretariate of the Committee for the Security and Cooperation in Europe was established in Prague.)

"Prague's geopolitical location is also perfect for political and economic conventions and important international meetings"

Prague has a unique opportunity to become a significant commercial centre in tomorrow's Europe. Already, many prestigious global companies have representative offices in Prague, and their number is growing rapidly.

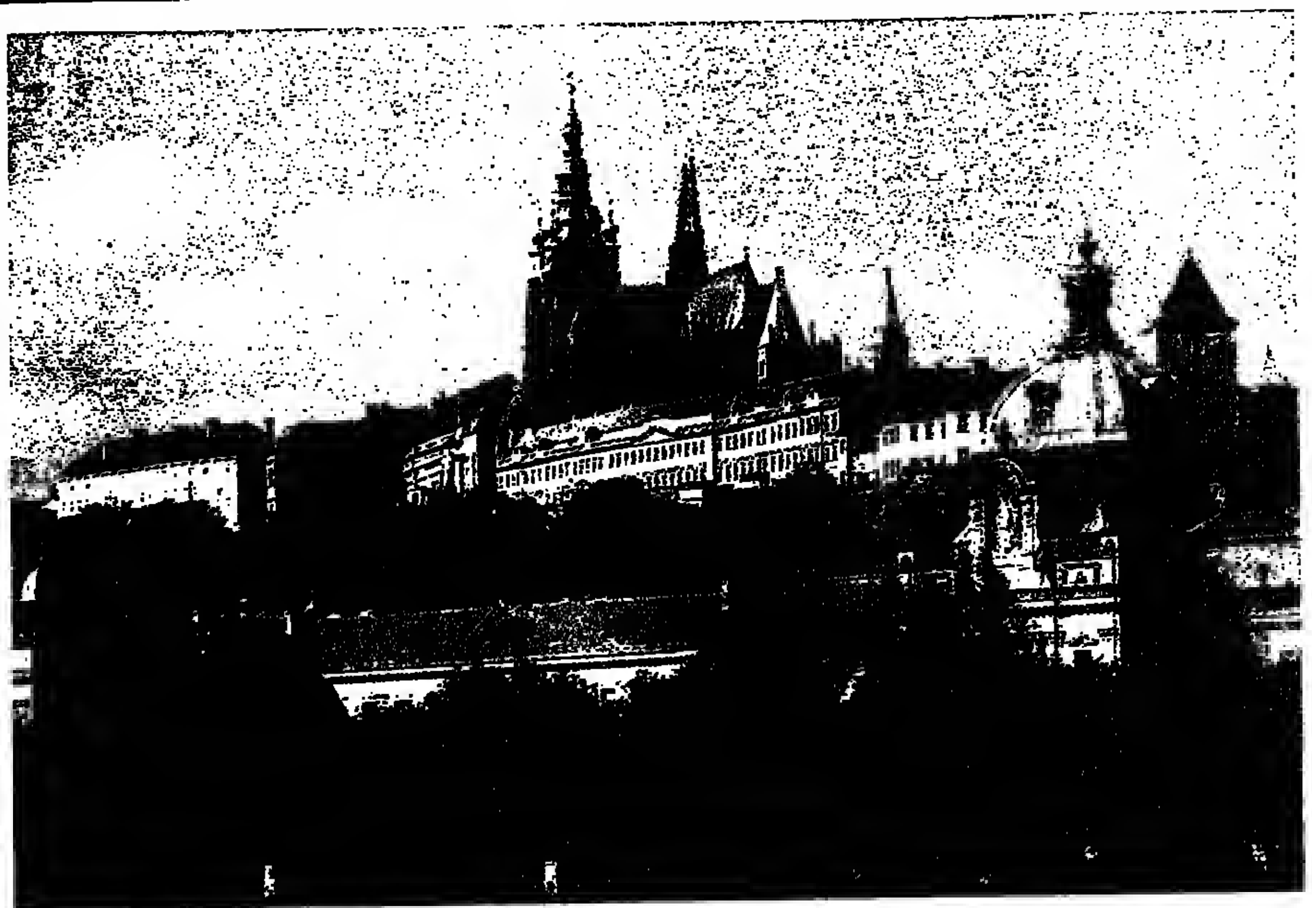
Prague's beautiful facade also conceals one of the country's most important industrial heartlands. Large engineering companies like Avia – which manufactures light trucks, Aero – the aviation technology manufacturer, and CKD – the famous engineering-electrotechnical concern are all based out of Prague

"Prague's beautiful facade also conceals one of the country's most important industrial heartlands"

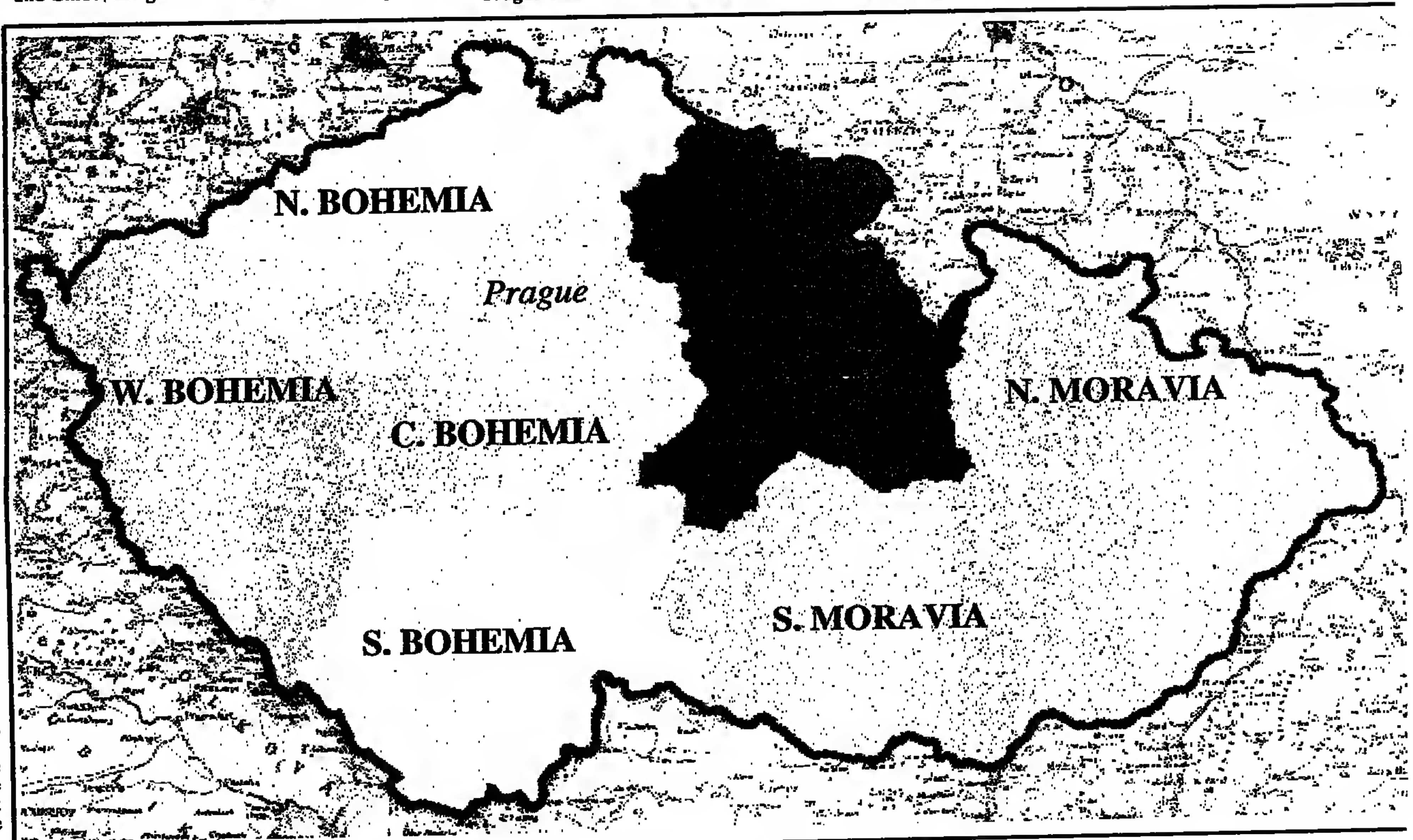
The interest of foreign investors and companies, who have both bought shares and started joint-ventures with these and other companies is a testament to the success of the complex economic transformation that they have undergone in the last two years. In 1991, the Technoplyn Company and Linde, the gasworks giant began to work together, Tesla Karlin started a joint venture company with Siemens to produce digital telephone switching centres, and the candy manufacturer, Cokoladovny joined forces with Nestle and BNS. Other prospective mergers are already in the pipeline.

However the traditional companies are only one part of Prague's economic share. 1,000 companies used to operate in the capital.

Following the post-1989 division of the old companies and the creation of new ones, this number has swelled to 17,000. With an additional 200,000 people engaged in independent commercial activities, it is not surprising that unemployment in Czech Republic's capital is less than one half of a per cent.



Prague Castle and St. Vitus Cathedral, world-famous landmarks



South Bohemia: back to the future

SOUTH Bohemia – separated by a mountain border from Germany to the north and Austria to the west – is an exception among the Czech Republic's districts. The only region without large industrial centres, South Bohemia's natural characteristics and traditions bave created an agricultural beartland, which accounts for its low population density. Only 700,000 inhabitants enjoy South Bohemia's spectacular 11,343 square kilometres.

With its countless ponds, forests, magical villages, castles, palaces, forts, and slender church towers, South Bohemia presents a markedly different face than other Czech regions. The well-preserved history and clean environment of the district could have been created expressly for tourism and relaxation.

The Sumava border mountain range which is connected with the Bavarian Forest – the largest forested territory in Europe – dominates the district. A national park protects 69,024 hectares of its most beautiful areas, which encompass one of UNESCO's international network of most valuable European territories.

South Bohemian cities are among the most beautiful in Bohemia. Founded in 1265, Ceske Budejovice, as the economic, cultural, and administrative centre of the region, is a prime example. While Cesky Krumlov is Bohemia's second most important historic reserve, after Prague.

South Bohemian towns with their characteristic surrounding silver ponds bear witness to how, during the middle ages, unfertile, swampy land was transformed into an economically priceless region. The "Golden Channel", constructed between 1506 and 1520 by Rozmberk pond-digger Josef Stepanek Netolicky, was Bohemia's first major artificial waterway. Some 57 ponds are still connected to it.

"Capital is flooding into the region"

South Bohemia, with its rich history, famous aristocratic families such as the lords of the Rose and the Schwarzenbergs, and beautiful castles, was fortunately spared the heavy industrialization. As a result, the harmonious landscape of the region – a UNESCO biospheric reserve since 1977 – the remarkable landscape up to the Austrian border; and the primeval forest in the Mountains – Europe's first reserve – were preserved.

Local people, little affected by industrialisation, made their living in trades with roots deep in the past: fish-pond cultivation, agriculture, glass-making, brewing, textiles and logging.

The first Bohemian glassworks were founded in 1553, and today the tradition is continued at numerous sites throughout the region. Brewing, which began in the 14th century, is no less ancient and famous a Bohemian trade. Today this tradition is carried on by the world-famous Budejovický Budvar (Budweiser) brewery. And so the list goes on: textile manufacturers, furniture makers, pencil makers. Ceske Budejovice's Koh-i-noor Hardmuth company has built a world-wide concern, with affiliates in 16 cities in 11 countries with trade representation in a further 74 countries.

The location, hard-working people and the socio-economic conditions introduced since 1989 opened south Bohemia to the world, and the world to south Bohemia.

Since the iron curtain fell, the economic co-operation which always existed in this part of Europe has been revived. This area, encompassing Upper Austria, Bavaria and south and west Bohemia, is expected to produce the highest economic growth in Europe with its newly opened Rhine-Danube Channel, tourist potential and its need for regeneration and a new communication system.

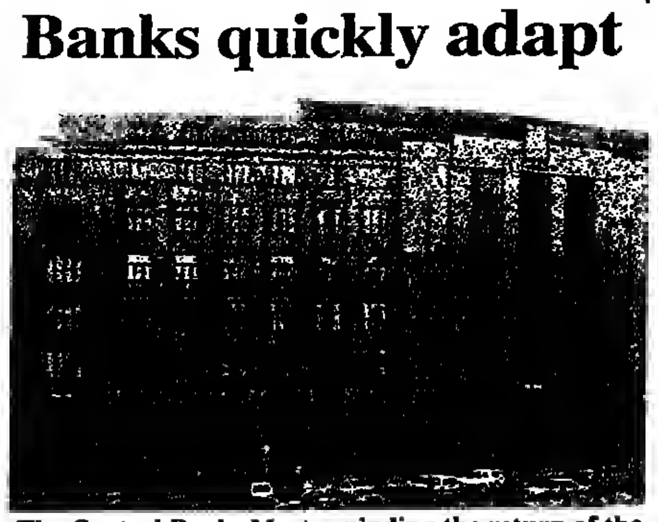
Capital is flooding into the region. Bosch is to move production from Nuremberg to Ceske Budejovice – where it is building a factory with the Czech firm Motor Jikov. Porsche is establishing a plant in Cesky Krumlov with its Czech partner Jihostroj Velesin and Austrian holding company Duropak holds 40 per cent of the share of Ceskobudejovicke papirny. Meanwhile, Italian motorcycle manufacturer Cagiva is working with CZ Strakonice, and France's Telemecanique with Elektropristroj Pisek.

Investment from countries aside from Bohemia's near neighbours demonstrates its potential for industrial enterprise. South Bohemians have the opportunity to enhance the region, increase the competitiveness of its light industry, develop agriculture and support tourism, without damaging its natural harmony.

Countless ponds, forests, magical villages, castle, palaces . . . .

THE CZECH REPUBLIC

Banks quickly adapt



The Central Bank: Masterminding the return of the capital markets

AT THE beginning of the 20th century the Czech banking system, which had developed hand in hand with Czech capitalism since the mid-1800s, enjoyed a dominant position in the Austro-Hungarian empire. By the inter-war period Czechoslovakia was one of the ten most developed countries in the world.

But this process was violently interrupted, first by the Nazi occupation, and then, in 1950, by its subjection to a state-controlled planned economy. Since 1990, however, this extremely simple economic model – based on the monopoly of the State Bank, as a combined central and commercial bank in accordance with the Soviet model – has undergone radical change.

Newly adopted laws governing banks – including the State Bank – and commercial activity, have created a legal framework which corresponds to western, in particular German, models of banking.

The Central Bank, recently renamed the Czech National Bank, is now an independent institution with responsibility for currency development and entirely separate from commercial banking activity. As is the case with many western central banks, the CNB has also assumed the role of banking regulator and supervisor.

Large general banks, which split off from the state bank and took on branch networks, capital, employees and traditional relationships with major clients.

The Commercial Bank and the Investment Bank, both part of nationwide agency networks, are in this category. Both have privatised institution status, although the state continues to hold significant, albeit not dominant, stakes through a temporary system of state monetary institutions. The state is represented by the Fund of National Property – an agency which will cease to exist after the privatisation process. Specialised institutions which previously existed independently, alongside the State Bank, form the second category. These include: The Czech Savings Bank, the Czechoslovakian Commercial Bank – which specialises in commercial foreign payments operations – and the small Trade Bank which has a branch in London and concentrates on private sector foreign payment operations.

The final group consists of small purely private banks which have been established since 1990. Some spring from domestic sources for instance Agrobanka Praha and the emerging network of regional agrobanks. Agrobanks are gradually emerging as independent institutions under their own names, such as the Ekoagrobanka of Ustí nad Labem, the Credit Bank of Plzen, the AB Bank of Mlada Boleslav. Others in the category include the Bank of Bohemia, Pragobanka, Czech Bank, Evrobanka, Coop-banka, and regional banks such as the First Silesian Bank of Opava, and the Greater Moravia Bank of Hodonín. Subsidiaries of foreign bank (Citibank of Prague, Creditanstalt of Prague, Hypobank of Czechoslovakia, and others), joint ventures with foreign participation (Bank Austria, Société Générale Commercial Bank, Post Bank, Skala Banking House, etc.), and finally, branches of foreign banks (ABN AMRO Bank, Bayerische Vereinsbank, Raiffeisen Landesbank) are all part of this category. In addition, 43 representative-offices of foreign banks operate in the Czech Republic.

When they were set-up, the first category large banks inherited significant loans which had been amassed under the previous non-market principles. For the most part their balance sheets were cleansed of such bad debt, which was transferred to the Consolidation Banks – special institutions under the administration of the Ministry of Finance, which, in turn, oversees long-term redemption.

The banks' new clientele, small and medium-sized entrepreneurs, represent a high degree of risk to the banking market. To facilitate such customers' access to credit, an institution was created with the participation of the state and the large commercial banks: the Ceskomoravska Guarantee and Development Bank. It assumes the guarantees for new clients and distributes some state support.

EGAP, a state-backed guarantee and insurance organisation, was established to support the financing of exports.

To date, no significant specialised investment, mortgage, or other type of institution has emerged within the system. Appropriate commercial activities are, however, already springing up within existing banks. Their separation into independent institutions will doubtless speed up in line with the organisation of the capital market. The opening of the Prague Securities Exchange is expected to take place in the first quarter of 1993.

The law catches up with the West

THREE years after the Velvet Revolution, the Czechoslovak state has passed on to its two successors the still unfinished job of restructuring the law, despite almost superhuman efforts since the end of 1989 to modernise and humanise the legal infrastructure of the country.

Between 1948 and 1989, the communist regime not only deformed and often devastated the everyday lives of ordinary people but consistently and carefully gave expression to its activities in legal norms. In this way, often ex post facto, it attempted to give the appearance of full legality to its interference in civil rights and liberties from the criminal law through to family law.

In the modern Czechoslovak state, founded in 1918, society assumed a tradition of clear and detailed legal codification. A change in regime, such as occurred after November 1989, could not instantly revert to this structure because of the radical need to discontinue the legal system inherited from the Communists. On the contrary, it required a systematic reimposition of fundamental legal norms. Thus, it was of paramount necessity in December 1989 to abolish the political guarantee of communist power enshrined in the Constitution of 1960, and systematically to change the basic codices.

"Superhuman efforts since the end of 1989 to modernise and humanise the legal infrastructure of the country"

First to be revised was criminal legislation. In particular, the death penalty was abolished and full guarantees of judicial review were given in matters relating to the defence of personal freedom. Commercial law was codified anew and the civil law underwent extensive revision. Both of these latter systems emphasised the significance of the courts in making decisions relating to rights.

The most difficult task was and remains economic reform, which is being carried out concurrently with the restitution of property rights; Czech citizens were deliberately deprived of these under various pretexts by the former regime. It has been possible to create conditions so that, during the privatisation of individual ownership, all previous claims of those who had been involuntarily dispossessed of their property were fairly considered.

In the same spirit, and in common with the issue of material damage awards, in accordance with the law on judicial rehabilitation, a revision was conducted of nearly all of the political trials of the previous 40 years.

From the point of view of civil liberty, two legal norms in 1991 are particularly significant–the constitutional law, on which the charter of basic rights and liberties is based; and the law which appoints judges for life.

The work of legal restructuring is not finished. But the changes to the law which have been made to date provide an unambiguous and clear basis for the future. The Czech Republic–irreversibly enlightened by the tragic mistakes of the past–is determined to consolidate these changes and is wholeheartedly committed to completing the process of legal reform.

A pacesetter in the 19th and early 20th century, industry rediscovers its tradition

BOHEMIA and Moravia, with their long industrial traditions, were the jewel in the Austro-Hungarian Empire's industrial crown. This was the legacy that the newly created Czechoslovakian state inherited on the Empire's demise in 1918.

Reaching its peak before the second world war, Czechoslovakia rose to become one of the ten most economically advanced countries in the world.

Light and heavy engineering, including the arms, automobile, glass, textile and shoe industries emerged as the most highly-developed sectors.

Socialist industrialisation, with its emphasis on metallurgy and heavy engineering and state support of mining and heavy industries, badly damaged the previously flourishing Czech industry.

Increased consumption of electricity and the growth of steel production were cited as testimonials to the success of the centrally planned economy and socialism. This disproportionate and ill-conceived development of Czechoslovakia's industrial production made the country a world leader in energy consumption and steel production, before 1989.

After the second world war, not only did the quantity and structure of production change, quality deteriorated and technology became obsolete.

Massive, undemanding eastern bloc markets, which absorbed goods of any quality, lay at the root of the decline. Healthy competition was eliminated by concentration of production on nationwide criteria, sometimes even on the consumption of the entire Comecon market.

Such conditions meant that when the eastern markets – especially the former Soviet Union – disintegrated, the impact on Czechoslovakian industry was severe. And, the blow was further exacerbated by the eastern bloc's switch to convertible currencies for commercial payments.

As a consequence, production fell sharply, and many sectors plunged into crisis. Industrial production in the Czech Republic declined by 30 per cent following 1989's democratic changes.

Statistics are unable to illustrate the impact on industry. The fall in production varied from sector to sector, sometimes to a significant degree. While production of rolling equipment was cut in half in 1991, against the previous year's output, production of machine tools for working metals remained constant.

Decreases in production varied considerably, even among enterprises which develop similar products.

The statistics could not account for the two-pronged problem – the decline of the state-owned sector and the development of the private sector. Neither could the figures account for other clearly conflicting "boom and bust" fluctuations.

Such statistical distortions largely resulted from the massive decline in several doomed industrial sectors such as heavy engineering and metallurgy.

But from the end of 1991, the statistics were able to record that gains outnumbered losses.

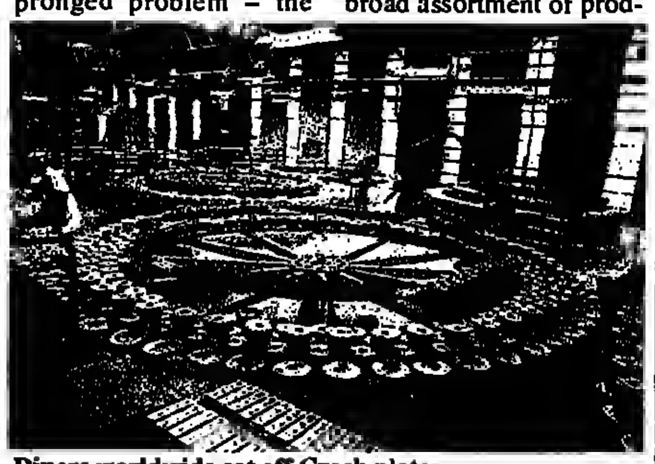
The decline in industrial production came to a halt, and a traditional engine of prosperity – the building industry – was boosted in the third quarter of 1992 by 25 per cent, against the same period in 1991.

New marketS are being sought by companies, the majority of which have seen their exports to the CIS fall to almost nothing, so conflicting industrial trends continue to be an issue in the Czech Republic. Such conflicts arise from the differences in the speed and adaptability of individual enterprises to the demands of advanced countries.

Czech industry is penetrating western markets – exports to EC countries amounted to 31 per cent ($3.7 billion) in 1990 and were boosted to 40.7 per cent ($4.6 billion) the following year. For two reasons, come the first half of 1992, exports to the EC were approaching 50 per cent ($3.2 billion). Although very few industrial products conform to global specifications, a broad assortment of products were saleable in western markets because of their low cost. And, the crown's exchange rate against convertible currencies enabled businesses to undercut global prices by 20 to 30 per cent.

Today, Czech industry's major challenges are restructuring, productivity and technology. Entire sectors such as coal mining and metallurgy must be completely overhauled.

Worker productivity, which fell some 25 per cent in proportion to the decline in production, must be increased. Opportunities to introduce much needed new technology through co-operation and joint-ventures with foreign firms – which are able to take advantage of the sizeable Czech production capacity and inexpensive skilled labour force – are now on the increase.



Diners worldwide eat off Czech plates

Getting to grips with energy

NATURAL energy sources in the Czech Republic are limited to solid fuels: lignite and black coal, which provide some 70 per cent of all energy consumed. Domestic production of oil and natural gas is negligible.

Imports of oil to Czechoslovakia totalled 11.2 million tonnes in 1991. Of this, 9.4 million tonnes came through the Druzba pipeline from the former Soviet Union and 1.8 million tonnes through the Adria pipeline, which traverses the former Yugoslavia on its way from the Mediterranean to Slovakia. Czech Republic consumption accounted for 6.4 million tonnes of the total.

Since both pipelines cross areas of great political instability, the Czech government plans to connect the refinery in Kralupy nad Vltavou to the Transalpine pipelines via Ingolstadt, in Bavaria. By 1995 the connection, with a capacity of 10 to 15 million tonnes per year, should be completed.

Meanwhile, the Czech Republic's natural gas consumption reached 5.5 billion cubic metres in 1991, supplied through the Transit gas pipeline from the CIS. Potential long term disruption of gas supplies presents less of a problem than oil since the western European gas pipeline system is also connected to the Transit pipe.

Thermal power stations, fuelled by brown coal, produce 77 per cent of all electrical energy. While the Dukovany nuclear power station produces a further 20 per cent and some two per cent comes from hydro-electric sources.

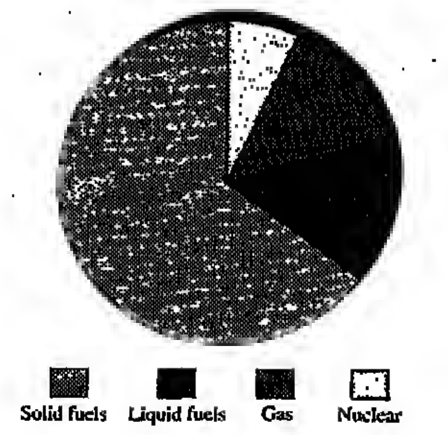
Should the two new 1,000 mega watt nuclear power units at Temelin go on-line, nuclear electricity will account for a market share of more than 40 per cent. US-based concern Westinghouse is to provide the control and fuel loading systems for the Soviet-type reactor.

Environmental devastation has been wreaked in Bohemia's north and north west regions by obsolete power stations' combustion of large quantities of low-quality brown coal. CEZ, which owns all large electric power plants and the high-voltage transmission network in the Czech Republic, plans to invest 80 billion crowns between now and 1996 to modernise and desulphurise these plants.

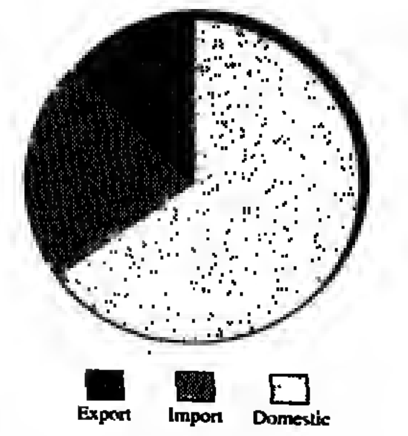
Czechoslovakia's energy consumption exceeds all tolerable limits. The gearing of industry to the production and consumption of enormous quantities of energy, distribution network and end-user losses, and the general squandering of inexpensive energy has created a situation in which consumption per capita was 181 GJ in 1988, more than twice the level of Italy or France.

The Czech Republic's primary source energy consumption has decreased by 30 per cent since 1988. But this trend owes more to the decline in industrial production than new energy-saving technology, rational consumption, or conservation.

Energy: Consumption sources
% 1991



Energy: Domestic production & import/export 1990



Agriculture–the land goes back to the farmer

AGRICULTURE in the Czech Republic, like many other economic sectors, has been badly neglected over the past forty years. The previous regime introduced state subsidies that resulted in costly overproduction of and waste of foodstuffs. Today agriculture in the Czech Republic is returning to its original balanced condition, based on demand, reasonable cost, and natural conditions.

The soil and climactic conditions in the Czech Republic are only average, and more than half the arable land lies higher than 450m above sea level. In spite of this, some sectors primarily the traditional cultivation of hops, grapes, and the breeding of fish, are very profitable.

Hops, which are the best-known and most in demand of all Czech agricultural exports, take up 11,000 ha. of land, mainly in western central Bohemia. South Moravia is famous for its vineyards, and fish from the 51,000 ha. of ponds, built in south Bohemia in the middle ages, are also exported.

Despite an abundance of highlands and foothills ideal for pasture, until recently the year-round housing of milk cows in large barns was encouraged. 100 ha. of productive land support an average of 89.7 head of cattle, of which 32 are cows. The change in agricultural policy after 1989 caused a change in the approach to cattle breeding, primarily by cutting subsidies for primary production, which led to increased prices and a drop in demand.

Until 1989, almost all agricultural land (4,288,000 ha.) was cultivated by state farms (33 per cent) and agricultural co-operatives (61 per cent). Co-operatives were created in the 1950s by the non-voluntary and often violent consolidation of land belonging to landowners and small farmers.

After the democratic changes in 1989, the original owners of the land were given the opportunity to demand restitution of seized property – land and equivalent livestock and equipment – and the privatisation of state farms and agricultural co-operatives began. Private individuals may become owners and part-owners of state farms, and socialist-type agricultural co-operatives are being transformed into owners' co-operatives. Shares are determined by the amount of property invested and the length of employment of the individual owners.

At present, more than half a million people are employed in agriculture in the Czech Republic, of which only 9,000 are private farmers. This number is expected to increase as the privatisation process continues. The total number of people employed in the sector should decease significantly in the future, to about 250,000. This prediction is based upon the general development of agriculture in European Community countries, and represents one of the long-term goals of the Czech government's agrarian program. Other goals are the decrease of farmed land by about 7 per cent, the decrease of arable land from 74 per cent to 60-65 per cent, an increase in forestry and a decrease in the number of milk cows to about 800,000.

The agrarian program also assumes that some of the previously entirely production based farms will begin to redevelop their landscapes in an environmental context. In attractive areas like the Czech border mountains, agrotourism is also a potential growth industry.

Budweiser and Pilsner have their roots in these hopgardens

THE CZECH REPUBLIC

Vítkovice steels world markets

Frantisek Hromek.

VITKOVICE, the metallurgical-engineering giant, represents one of the strongest prospective enterprises in the Ostrava industrial agglomerate and the Czech Republic, despite the general trend away from such sectors.

Vitkovice, which employs some 30,000 staff, has acted independently and quickly to restructure its operations, not waiting for state moves.

It produced more than 1.5 million tonnes of steel a year and exported to 60 countries before 1989.

Principle lines were steel pipes and flat products, and its heavy engineering division produced open-cast mining equipment, coke-oven plants, technological equipment for blast furnaces, foundry equipment, rolling trains, presses, steel constructions, and specialised cranes.

Crankshafts for ocean-going ships and equipment for nuclear power stations – steam generators and volume compensators – are specialities.

The Soviet Union was Vitkovice's largest consumer and the Comecon countries its primary outlet.

But the break-up of the eastern market enabled Vitkovice to boost exports to market-based economies in 1991 by 26 per cent to 80.1 per cent.

The European Community is now Vitkovice's largest customer accounting for exports valued at some 2 billion crowns from a total turnover of 19.1 billion crowns.

Metallurgical products currently form 74 per cent of exports, with engineering products accounting for 18.5 per cent., and investment units 6.3 per cent.

But Vitkovice aims to reverse this production and export ratio in favour of engineering products, through its 1991 restructuring plan.

Mass production of rolled materials is being limited by the company's metallurgical works, which will increasingly concentrate on high quality steel production. The production equipment, which is modern by east European standards – comprising two oxygen converters and an electric-arc furnace with complex secondary metallurgy – will be complemented by a continuous slab casting unit. An electrified steel plant is also set for modernisation.

Metallurgical production of high-quality materials will become the basis of the planned expansion of engineering production. As well as further innovation in its traditional products, plans are for production of ecological engineering such as desulfurisation and denitrification equipment, waste incinerators, waste water treatment plants and special equipment for the transport and storage of spent nuclear fuel.

Vitkovice will also manufacture boilers again, and is currently seeking orders from large investment projects, essential for the modernisation of metallurgy plants in the Czech Republic.

Vitkovice is now a joint stock company, owned by the National Property Fund. Privatisation will start this year as part of the second wave of coupon privatisation.

New management was introduced in co-operation with consultants W.S. Atkins, the privatisation plan with UBS in London.

Preparations have already been made to divide the company into three divisions: metallurgical, engineering and the third will combine the company's other activities.

The restructuring and privatisation are intended to attract foreign capital, as quickly as possible, to specific parts of the company, so that a synergistic effect can be achieved in the context of the new holding organisation, and so that capital sources can be effectively diversified and directed into effective production branches.

VÍTKOVICE

Preciosa's crystal clear export strategy

Ludvik Karel.

A centuries old traditional glass industry is a proud boast of the Czech Republic. Preciosa Jablonec nad Nisou – among the largest producers in the world, with a turnover of more than 2 billion crowns – is key to that tradition.

Although Preciosa specialises in semi-finished glass products for costume jewellery, cut glass is also an important part of this north Bohemian company's exports.

North Bohemian glass makers have always focused on exports, but after 1989 the company changed its export policy and last year sent 75 per cent of its production abroad.

Preciosa's products had a counter-value within the framework of barter trade between Czechoslovakia and former Comecon countries, under the previous centrally-planned economy. A minimum 40 per cent of production had to be exported to eastern bloc countries while domestic customers were given second priority and, only then, was any remaining production exported to hard currency markets.

Preciosa was forced to seek new markets when this barter system collapsed alongside a temporary drop in domestic demand. It did not take long. Aside from a minor drop in production in 1990, Preciosa's output has not suffered. Preciosa found new major customers in the Far East, the US and Europe, particularly Germany.

PRECIOSA

A temporary shortage of employees in the last few months has prevented greater exploration of new possibilities. At present, Preciosa employs more than 6,000 staff and is planning fundamental changes.

Its primary goal is to increase its world market share, which currently stands at some 20 per cent. Major investment is essential in the next four years if technology is to be modernised, competitiveness increased and Preciosa's ambitious satisfied.

One of the first large companies to be privatised, the largest share in Preciosa was awarded to Vseobecna zdravotni pojistovna (General Health Insurance Company) by the Czech government. Employee association Princo – established to safeguard the company's skills – is the second largest shareholder.

Further stakes are held by the cities where factories are located (Jablonec, Liberec, Turnov, Jablonne v Podjestedi and Tlmace in Slovakia). Seven per cent of the stock has been set aside for employee shares and a portion is reserved in the National Property Fund for future sale to Czech citizens. Meanwhile shares have also been reserved for Preciosa's customers, the private costume jewellery producers.

The privatisation project does not rely on foreign participation. But to realise its goals Preciosa is currently negotiating loans with Czech and foreign banks.

Motokov opens the trade gates to the Czech market

Dalibor Mosovsky.

ESTABLISHED in 1951, Motokov is a trading company specialising in the import and export of machine products. Until 1989, Motokov had a 10–12 per cent market share of all Czechoslovak exports and 30 per cent of all machine tool exports. Currently, due to the reorganisation of the CSFR, the exact proportions of Motokov's market share are difficult to estimate, but the company expects to retain its positions as one of the largest Czech trading companies in the machine tool sector.

Basic product lines have not been fundamentally changed – trucks, tractors and other agricultural technology, buses, motorcycles, bicycles and Barum tyres remain the most important products.

For a long time, Motokov's largest market was with Comecon and the other eastern bloc countries, which provided at least two-thirds of the company's business. The most important market was the Soviet Union. The changes which began in eastern Europe in 1989 led to the collapse of this market and a necessary turnaround in the company's market orientation. Today Motokov's main trading partners are western countries, mainly Germany, Great Britain and Italy.

MOTOKOV a.s.

This decreased volume of trade with eastern markets and the recession in the western countries has understandably affected turnover. The company is responding to this trend by targetting new territories, and by seeking new, non-traditional products for import and export. New activities have been launched: Motokov has become the representative of the South Korean car manufacturer Hyundai, as well as the US company IH-Case, one of the largest producers of tractors and agricultural machinery in the world, and several well-known French cosmetics firms.

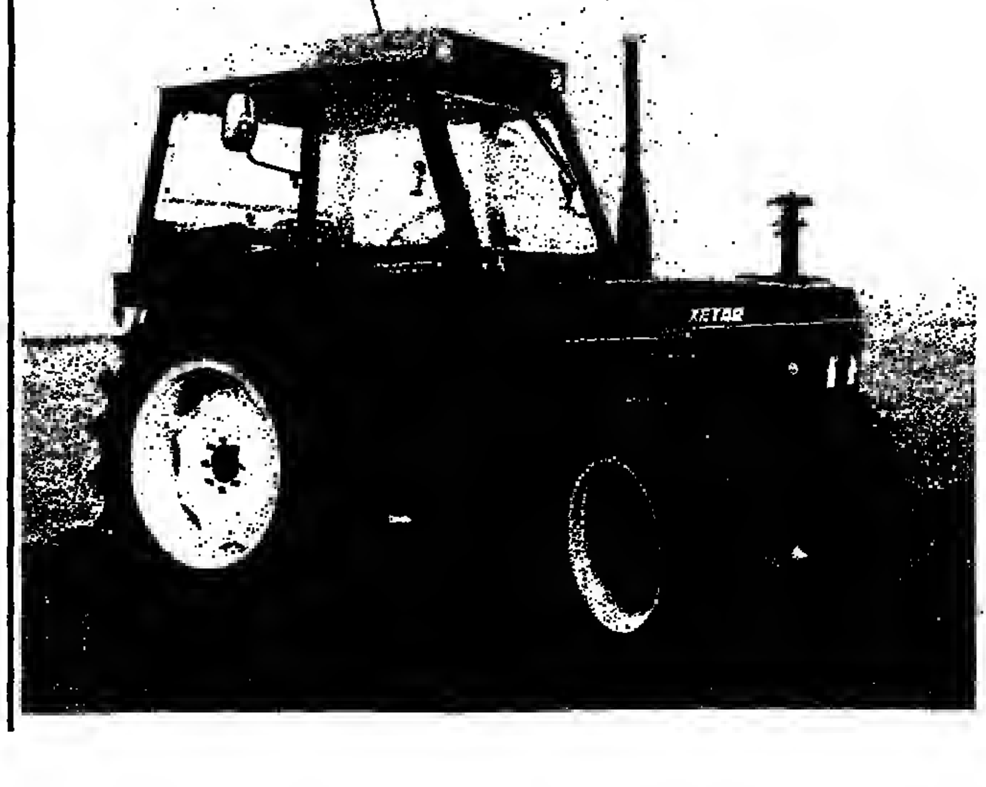
Motokov is presently negotiating contracts to represent several other well known companies, and is also interested in joint ventures, for example one with the travel agency Thomas Cook.

However, these new activities alone cannot make up the drop in turnover, and the company has had to make changes in its infrastructure. The number of employees, cut two years ago from 1,400 to 1,000, will be further reduced to bring costs in line with revenues.

Motokov's world-wide operations are controlled through a network of 23 affiliates, which own a share in firms which deal in the sale of export products. The first affiliate company was established in Scandinavia in 1952. In addition, Motokov has a network of over twenty contracted foreign representatives at its disposal. Recently seven new company contact offices have opened, organised so as not to compete with the existing affiliates. Apart from these additions, the foreign network has not changed, except in the replacing of less promising areas with better prospects. For example, the representative office in Algeria has been closed and a new one has been opened in South Africa.

In 1990, Motokov became a joint stock company within the privatisation programme. At that time, the stockholders were companies whose products were exported by Motokov, for example Skoda Mlada Boleslav, Zetor Brno, CKD Tatra, and Barum Otrokovice.

A proportion of the shares was offered under the coupon privatisation programme, and these new shareholdings should be disclosed in the near future.



Svit: shoes made for selling

Jiří Capek.

BASED at the heart of the Moravian city of Zlín, the Svit shoe company – the largest footwear manufacturer in the Czech Republic with a turnover of 6 billion crowns in 1991 – was founded before the second world war by Tomas Bata.

Zlín, the firm's flagship factory, was the base from which Bata expanded worldwide. The Czech Republic's shoe industry employs close on 35,000 people. When exports to the former Soviet Union were at their zenith, the industry produced more than 63 million pairs of shoes a year, over half by Svit Zlín.

At one time, the group formed the largest concentration of shoe production in the world. But its production techniques were completely out of date.

In April 1991, the company underwent a radical restructuring programme. Factories in Trebic, Zruc nad Sazavou and Skutec, and the tannery in Otrokovice were hived-off and Svit Zlín became a joint stock company under government ownership.

But Svit Zlín's structural change was not the most important factor which helped the company adapt to the rigours of the market-place.

Svit had exported 30 per cent of production to the Soviet Union's massive, but undemanding market. Only 10 per cent went to western markets, and the remainder was swallowed up by the domestic, monopolised sales network. Come 1991 and Svit was only able to complete 50 per cent of the contracts with eastern Europe it had previously relied on. Traditional customer's decreased sulvency following the break-up of the Soviet Union, saw exports to the CIS fall further.

With its traditional markets decreasing and domestic demand cut by 50per cent, new export opportunities became vital. But, with European and American manufacturers facing stiff Asian competition and general stagnation of shoes sales – with the exception of sports shoes – this was not going to be easy.

Svit
AKCIOVÁ SPOLEČNOST ZLÍN

Nevertheless, Svit exported close on 50 per cent of its production to the west last year.

Production volume decreased to some 18 million pairs, reflecting a gradual transition to higher quality designs and lower production runs. While adult shoes remain Svit Zlín's mainstay – subdivided into work, hiking and leisure shoes – children's shoes are also an important part of the production programme.

Leather shoes have become the principle product with plastic-based shoe manufacture now more limited.

Despite the restructure, Svit Zlín still employs more than 10,000 staff and even reports a shortfall in available labour in skilled areas such as the stitching workshops.

Staffing comparisons with previous years are difficult, certain production divisions are now independent and two factories, which were restored to their original owners, have left the group.

Privatisation is in hand, certain factories and activities have already left state control. The restructuring should finish before the end of privatisation, later this year. According to the privatisation plan, Svit will emerge as smaller subsidiary units bound by capital in a holding organisation.

Svit Zlín's principle goal is the complete separation of activities not directly connected with shoe production. Its second priority is the division of factories into smaller units which are better able to react to market demands and encourage greater efficiency along with foreign investment.

THE CZECH REPUBLIC

The Czech culture club re-opens its doors

Dramatist and author Petr Oslzly reveals the contours of Czech culture

"MORE than ever before, we Czechs ore faced with the task of rediscovering the contours of Czech culture. It is as though the time has come ogoin to set out on o journey where we must make notes of whot we see and whom we meet. And we feel the need to invite other Europeons to come with us on this journey, so thot they con see for themselves what shape our culture really takes. And as we set out, we ask ourselves: will the journey take us through the town or through the countryside?

When I try to answer this question, I grope forword uncertainly until I feel stone beneath my feet and before my inner eye spreads a visto of walls and cupolas, roofs and towers. The Itolion literory historion, Angelo Mario Ripellino, wrote o wonderful book obout Prague ond its culture and called it "Enchanted Prague"; a title which has become o metaphor. And it is not only Prague, incontestably the heart and lodestone of our land, but the whole of Czech culture which is for me an enchanted city. Its streets ore paved with time. The works of ort and personalities which were barn in yeors past in this metaphorical city still crowd its streets as though the laws of time no longer existed. So it is that these years, works and personalities live olongside the present, alongside what is born and what we do today.

Let us enter this enchanted city and stand for o moment ot the cross-roads.

Which path shall we take?

The greotest of the Czech kings, Charles IV, was a man af immense courage, both physical and spiritual. He built o bridge in Progue which in time become o work of unsurpassable beouty; a bridge whose gothic form wos adorned by baroque stotues and from which the views of the historic city were of amazing splendour. Moybe this bridge is the metaphoric pathwoy into our Czech culture. At either end, framed by the orchwoy of o gothic tower, swell the baroque domes of Diezenhofer's churches, intersected by the verticol spires ond pinnocles of the fomily gothic builders, the Porlers. These orchitects and builders ond many more consort in the streets of this city, exchange views and compare their styles. And we find the same thing in the countryside. On the barder of Moravia and Bohemia there ore gothic and baroque works unimaginable elsewhere in Europe: their designer was Giovani Santini, son of o Czech-Itolian family.

And if we cross to the other side of Bohemia, we encounter the uninhibited daring of the boroque sculptor, Motyas Braun, who corved the figures of Virtue for the castle of Kuks – sculptures which may have provided courage for the greot creotions of the cubist sculptor, Otto Gutfreund. Architectural, sculptural and intellectual forms meet and interpenetrate across time. At the beginning of the twentieth century, these age-old encounters and intertwining shapes became fertile ground for the eruption of Czech cubism. Later they were the inspiratian for Czech surreolism, the most important manifestation of surreolism outside France. Every work of ort creoted in my enchanted city is a source of inspiration.

However, the city of Czech culture was o meeting place not only of styles, but olso of races – Czech, German and Jewish. Artists and thinkers inhabited the cauntry houses of the Bohemion nobility, the Czech and German-speoking households of the bourgeoisie, and the narrow streets of the Jewish ghetta. Men who were instrumental in shaping the cansciausness af our whole civilisotion were born in the towns and countryside of Bohemio ond Morovio. Franz Kofka come from Prague, Gustov Mohler from the small village of Koliste in the Czech-Morovion Highlonds, Sigmund Freud from Pribor on the Palish barder, and Edmund Husserl from Prostejav in the heart of Moravia. All were of Jewish origin; they wrote in German; were born into aur Czech culture ond endowed with its spirituol inheritance.

The enchanted city is filled with music. Smetono's melodies flow in the woters of the Vltava, whilst Antonin Dvorak reaches across the ocean to the distant New World. It is music which, saaring up to the heovens,opens the Czech countryside to us – the countryside af our culture. It is a countryside af tunes sad and merry, a countryside which evakes beauty and wonder tagether with deep sarrow at the clase of life, as in the nine symphonic paems af Mahler. A fresh breeze blows ocross this cauntryside, and dancing through the lanes comes a singer, a drummer and a piper whose dramatic dialagues echo themes from the entrancing operas and musical compositions of Leos Janacek.

Every city has ta have a theatre and aur enchanted city has dazens of them. In the senior positian stands not a Theatre Rayal, but the Theatre af the Estates, af aur own nobility; it is better known as Mazart's theatre. The orias af "Dan Giovonni", first heord from this stoge, echa still between the walls af the theatre. Next cames the Notional Theatre, which the Czech people paid for aut af their own individual contributions and which, in owe of its beouty, they coll the "golden chopel". The chapel has been the cradle for the development af the Czech theotre, sa it is not surprising thot its offspring, the smoll, experimentol theatres of Prague, developed their own spiritual yardstick during twenty yeors af warking in o campletely different atmosphere. It was these theotres which, tagether with the students, inaugurated the velvet revolution.

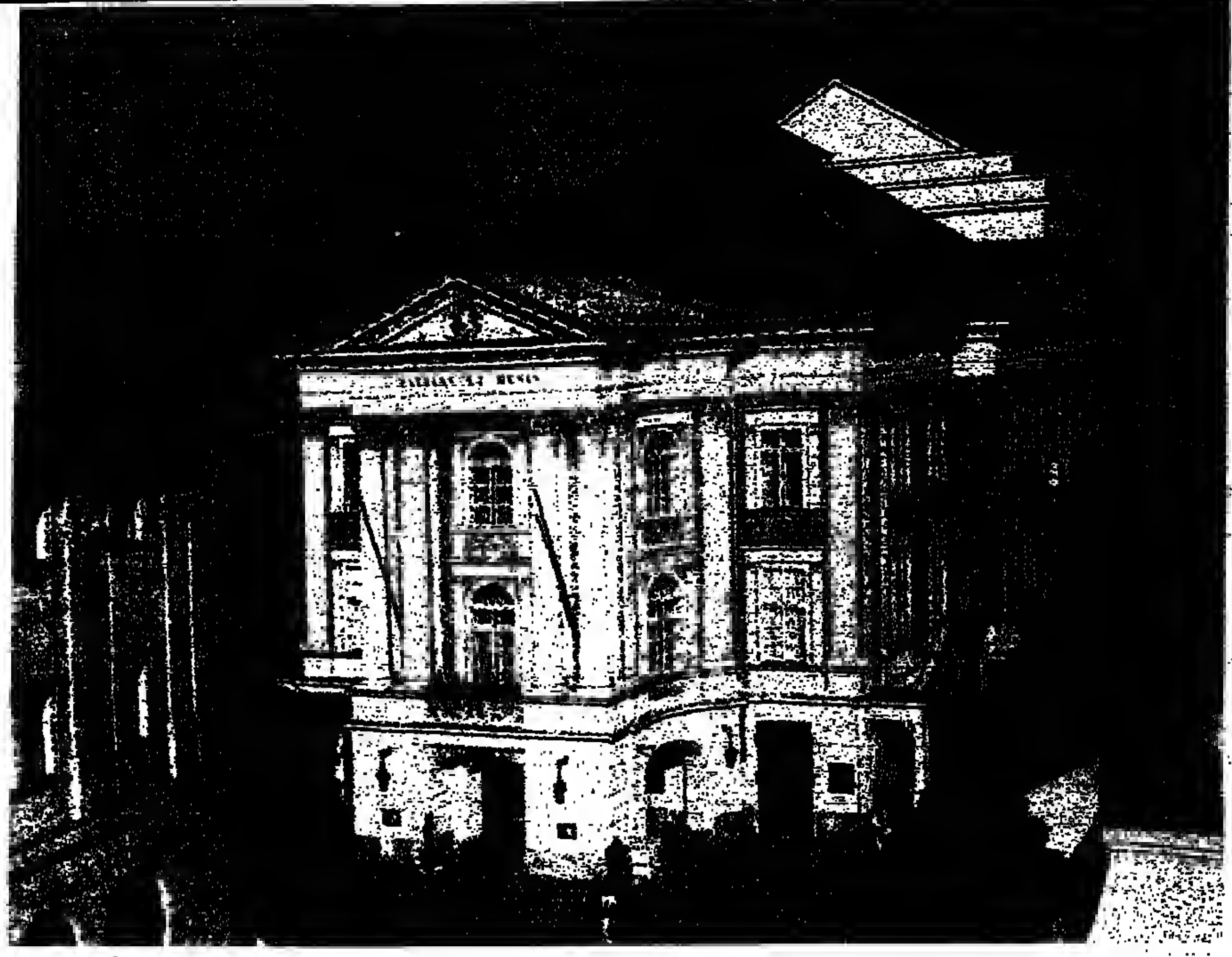
For I have to say that far half a century this enchanted city of aurs wos paralysed by tatalitarianism. Early in this century it was faretold by o pale faced man who, with the intuition and understanding af the analytic visianary, saw the future city beyand the boundaries af his awn age. Franz Kofka wrote in German, but was o passianate admirer of ane of our best Czech writers, Bozena Nemcova, spiritual sister af George Sands. An artist and on insurance clerk, full af cantradictions, Kafka wrote down in laboriaus detail all that he sensed wauld befall us in this city. His prophecies were fulfilled with perfect exactness.

Far fifty long years the enchanted city of our culture was daminated by the shadow af evil. But in the darkness af captivity the nomes af the builders af our spiritual city glawed the more brightly, and new anes were born. It was in vain that stote bureaucrats from the poges of Kakfa's "Trial" led Vaclav Hovel aff to interrogation. The more aften it happened, the more apparent it became that he took his place among the great who travel freely and autside time in the enchanted city. In the end all the gleams af light gathered strength ta reach the full illuminatian af a new freedom.

Yau too can orrive at the cross-roads of the enchanted city (or countryside) af aur Czech culture. Moybe it will be by the cobblestanes af the Charles Bridge, ar along the gothic streets of Cesky Krumlov, or under the renaissance arcades af Telc, ar past the boroque crucifixes and through the gravestones of the Jewish cemetery in Mikulov. It doesn't matter by which path yau enter aur culture, but it does motter where you ga: into the land of culturol talerance in the Centrol European traditian: into the land whose velvet contours were so nearly destroyed by tatalitarianism; into the land which was ance suppressed, but is naw being born into o new freedom; inta the land whose thinkers incline to plumb the depths af being in which they find profound and disturbing truths.

Cultural talerance is apen to whoever follows the true European path; they will find along the way places which reflect its spirit, intellect, creativity and sensitivity; they may also share in its creation.

The gates of the enchanted city and countryside of Czech culture ore open."



Stavovské Theatre: a must for music lovers.

Mucha ado about art.

Škoda back on the right road

Volkswagen brings investment to Czechoslovakia
Skoda starts expansion

CZECH carmaker Skoda is bucking the general slump in the Western European car market. Now part of the Volkswagen Group, Skoda, produced a record 200,000 cars last year and is increasing production.

Based in Mlada Boleslav, an industrial city 60km north east of Prague, Skoda is one of the oldest manufacturers in central Europe.

The manufacturer produced its first motorbike in 1899 and six years later the factory, originally called Laurin & Klement, unveiled its first light car. Aside from a brief interruption during the war, cars have been produced there ever since.

From 1925 until the end of the second world war, Laurin & Klement was part of Czechoslovakia's largest firm, Skoda Pilsen. The name and logo were changed with the change in ownership and Skoda's winged arrow replaced the traditional L&K symbol on the grille.

Volkswagen bought its 31 per cent stake for DM620 million in April 1991 in the face of a counter offer from French manufacturer Renault.

The German group is pledged to invest more than DM9 billion by the year 2000 to modernise Skoda. Such unprecedented investment, the largest injection of foreign capital into Czechoslovakia, will allow Skoda to double production to some 450,000 cars by the mid-90s.

A DM780 million new tranche of stock will then be issued, boosting Volkswagen's holding to 70 per cent.

While Skoda is a somewhat run-down acquisition for Volkswagen, it offers exciting opportunities. Volkswagen chief Carl Hahn maintains: "We have a well-trained work force producing a well-known make of car in the Geographical heart of Europe."

At the time VW took its stake, Skoda had only been producing its new Favorit range for two years. The model marks Skoda's return to front engines and front-wheel drive after many years of producing cars with "everything in the back".

Designed by Italian body-maker Nucio Bertone, Favorit is a tried and tested construction although it had some quality problems.

Quality is now the major priority for Skoda's new directors, the Czech Ludvik Kalma and the German Volkhard Koehler. And, plans are progressing well.

"We have achieved unique results not seen in the whole Volkswagen concern," declared vice chairman Koehler on the first anniversary of the Skoda-Volkswagen joint venture. "With more than 400 improvements in quality, we have even surpassed many of our foreign competitors."

Skoda faced a dramatic drop in demand, after its link-up with VW, resulting from the disintegration of the traditional market and domestic consumers' caution. The carmaker sold 172,000 vehicles in 1991, 8 per cent down on the previous year. It achieved a turnover of just 14.6 billion crowns (334.1 million GBP), and incurred losses of 900 million crowns (20.6 million GBP) that year. But Skoda is creating a financial reserve of 1.7 billion crowns (38.9 million GBP), to cover payment disability of trade partners.

Ludwig Kalma

A spirit of sober optimism could be said to have characterised 1992. Production has stabilised due to an aggresive marketing strategy devised by Detlev Schmidt, who successfully helped Seat back on its feet. Schmidt insists: "Our marketing strategy must be global."

Skoda is targeting countries far beyond its traditional European markets. "We see promising opportunities, for example, in China, Brazil, Argentina and Arabic countries," claims Schmidt.

A new factory in Mlada Boleslav which will produce a new mid-line car from the mid-90s, is already under construction. Another new plant producing motors, with a 400-500,000 unit capacity per year, will also be added to the original project.

Mlada Boleslav believes its goals are ambitious, but realistic.

ŠKODA
Volkswagen Group

Budweiser's better brew

THE Czech town Ceske Budejovice is synonymous with brewing. And the brewer – Budejovicky Budvar – is renowned in the Republic. Founded in 1895 by a group of wealthy Czech citizens, the business is built on a Ceske Budejovice brewing tradition dating back to the fourteenth century.

By the Republic's standards, the national enterprise Budejovicky Budvar Ceske Budejovice is a medium-sized brewery, with annual production of 520,000 hectolitres of beer. But its market is unique.

Some 69 per cent of production is exported to foreign markets, in particular Germany, Austria, Switzerland, Sweden and the United Kingdom. Since the sixties, when Budejovicky Budvar began exporting to such countries, it has gradually established a position as the top premium beer on the European market.

Non-alcoholic, light and draft beer are among the brewer's range but Budweiser Budvar Lager is the company's flagship product.

Production is ever increasing. It enjoys annual growth rates of between 5 and 8 per cent while its exports have achieved growth rates of closer to 10 per cent and is emerging as particularly significant. Last year, the brewer's turnover soared to 750 million crowns.

Export marketing was relatively unaffected by the upheaval in 1989, since commercial relationships are long-term by nature.

But there have been essential changes in the Czech market as parts of the state distribution system disintegrated or were privatised. To take account of such changes, the Budejovicky Budvar brewery is building its own marketing network in the Czech and Slovak republics. Emphasis is on direct contact with the hotels, restaurants, pubs and shops, which also benefit from its modern service plan.

While many western enterprises would welcome such a difficulty, the brewer's management is tackling a major Czech contemporary problem – insufficient capacity to meet domestic and foreign demand for its Budweiser Budvar brand – by a programme of extensive investment in construction.

In 1993, a new battery of cylindro-conical tanks will come into operation and significantly increase the fermentation and secondary fermentation processes. Meanwhile, within three to five years, beer production should increase to approximately one million hectolitres a year.

A significant proportion of the new production should go to domestic consumption, but attempts are being made to break into new markets.

The company's financial position has improved dramatically since 1989, and the current results look very positive.

No radical changes have been made in the production programme. Last April the range was enlarged to include Budweiser Budvar Free, a non-alcoholic beer, which is already enjoying domestic success.

Structural changes have been implemented in step with changes to legislation in the Czech Republic and in the market and economic conditions.

But what has remained completely constant is the quality of the beer – a standard which has been maintained through the decades. Careful selection of raw materials, an independent water source, technological discipline, and workmanship all serve to ensure the beer's quality.

Jiří Bocek

Altbougb it is still a national enterprise, the brewery is scheduled for the second privatisation wave. The method of privatisation has yet to be resolved.

The government has the final say over the brewer's future but foreign investors have already registered considerable interest. More than forty, mostly overseas banks and brewing companies, have already come forward with various proposals.

American brewer Anheuser-Buscb, which is attempting to win world-wide use of the Budweiser trademark has generated the greatest discussion through its approach.

The two brewers' relationship, as it relates to trademark law, was contractually established between 1911 and 1939. Among other obligations, the contract prevents American consumers from enjoying the unique Budweiser Budvar beer from Ceske Budejovice.

THE CZECH REPUBLIC

A renewed quest for educational excellence

New technology for a new generation

EDUCATION in the Czech lands has always been highly advanced. Ancient domestic literary monuments of the 10th Century, written in Latin, Old Church Slavonic and Czech bear witness to this tradition.

Even in the middle ages, ordinary Czechs benefitted from education. Records show that Czech schools existed as early as the 10th Century. While at the beginning of the 15th Century, during the holy wars, a future pope visiting Bohemia was surprised to find that peasant women knew the Bible well, and that some were literate.

Prague, home of central Europe's oldest University, has always been the centre of intellectual life. Its importance can, in part, be attributed to the free exchange of ideas between Czech, German and Jewish scholars.

During the period of its revival, the intelligentsia rose to a leading position in the Czech nation's political and educational life. Their prestige contributed to the increasing emphasis on education. Translation thrived, becoming a key factor in the move to put the Czech language on an equal footing with other European languages.

Erudition, even among ordinary people, reached an extraordinary level in the second half of the 19th and early in the 20th Centuries. Knowledge of English, French, Scandinavian, Italian and Spanish as well as Slavic literature was common.

An excellent education system was the most important factor contributing to this state of affairs. Not only was there a strong tradition of Gothic schools, the fundamentals of modern education were laid in Czech lands thanks to the Unitas Fratrum, which produced one of the greatest educational theoreticians. J. A. Komensky's (Comenius) work influenced the development of pedagogics for centuries. Few European countries can boast both elementary and secondary schools with centuries-old traditions. The Prague Academic Gymnasium, for instance, was founded in 1556.

The democratic character and balanced curriculum of Czech schools from the end of the Austro-Hungarian Empire until the start of the second world war was a model for educational systems in countries throughout the world. These fundamental traditions suffered under the communist regime, when schools were used as places of ideological indoctrination and a way of placing parents under duress through their children. Since the November 1989 revolution, the Czech school system has been gradually recovering from such repression.

Czechs now enjoy a quality of education on a par with OECD countries. Not only has the school system been released from its political straightjacket, it is now benefiting from the experience of more advanced countries. A large number of teachers of western languages are now working in Czech Republic schools, even at elementary level. Additional short-term finance for students at foreign universities, new forms of co-operation in the context of the Tempus, PHARE, USAID and Fulbright programmes, have all contributed to this educational exchange. The relationships between the Czech school system and those of other countries have started to develop on entirely new foundations and in entirely new dimensions.

But scars run deep and Czech education can not be expected to achieve fully its previous standard until the next generation.

The road to recovery is, nevertheless, being negotiated. Some 100,000 students are now enrolled at 23 colleges and universities throughout the Republic. These institutions enjoy full academic freedom and are able to assume a full role in society.

Charles University –region's oldest seat of learning

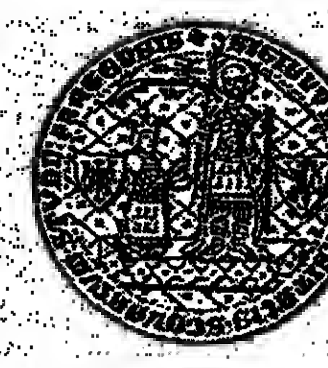
PRAGUE'S Charles University is central Europe's oldest academic institution. Founded in 1348 by Charles IV, who modelled the university on the Sorbonne in Paris, it preceded the foundation of universities in what are today Germany, Austria and Poland. Only centuries later did similar institutions begin to appear in eastern Europe and Scandinavia.

In keeping with the medieval concept of general studies, Prague university originally consisted of four faculties: theology, law, medicine and liberal arts.

Soon after it was established, the University became associated with the early European Reformation, through the activities of its Master and Rector, Jan Hus. Charles University became the first Reformation, or "Hussite", university.

The university's fortunes became linked with the fortunes of the Czech state of the Estates. Following the suppression of the Czech Estate uprising, the university was revitalised. In 1622 it merged with the Prague Jesuit academy (the Klementium) and, with the benefits of the Enlightenment, Charles University gradually transformed from a religious institution to a national college, thereby meeting modern society's cultural, political and economic requirements.

Come 1882 and the development of Czech national identity, antagonism obliged the Imperial government in Vienna to divide the university in two: one Czech and one German speaking. And so it remained until 17 November 1939, when the Nazi occupiers closed the



Czech colleges and persecuted many teachers and students.

Czechoslovakia's liberation in May 1945 saw the German university in Prague closed.

But, after a short period of freedom, the newly reopened Charles University, fell under the heavy yoke of the totalitarian communist regime.

The university became the target of communist purges soon after 1948, and again during the "normalisation" of the 70's, because of the number of teachers and students who took part in the Prague Spring rising of 1968.

More than forty years of such unfavourable conditions ended on 17th November 1989, when a students' strike sparked the "Velvet Revolution".

Thanks to the appointment of new representatives, in January 1990 the academic community began to remedy the mistakes of the previous era. Today, Charles University has 16 departments (including three new incorporated theology departments), some 27,000 students, and a faculty of 3,539 permanent and visiting staff.

True to its ancient tradition, the university strives to develop human knowledge and, in doing so, educate the nation and open doors to the world.

Sporting achievements reflect a national passion for games

THE Czech sporting tradition stems from two separate but interelated origins. In the late 19th Century, the physical training organization, Sokol, devised the athletic system used throughout that time in the Austro-Hungarian Empire. Among its members, who numbered over a million before 1939, were some exceptional

Jan Zelezný: hi-Czech performer at '92 Olympics in Barcelona

gymnasts who went on to win Olympic medals. The second sporting tradition was inspired by the English model. The Czech athletic environment of that time, especially in the areas of cycling and rowing, was directly influenced by sports-loving English businessmen who had a significant presence in Prague during the 1880s.

The first soccer match – in a social setting – was attended by the highest nobility and even the Cardinal of Prague played between the Prague Slavia club and Oxford in 1899. The Czechs were also successful in sports diplomacy. In 1894, one of the founding members of the International Olympic Committee was Jiri Guth-Jarkovsky, a gymnasium professor and long-time friend of Pierre Coubertine. He and his friends managed to negotiate the independent participation of Czech athletes in the 1900 Olympic Games, even when the lands of the Czech kingdom were not independent within the Austro-Hungarian Empire. This was of great national significance for the Czech people.

Up until 1939, Czech sports were mostly on an amateur level and depended on the support of patrons to fund their activities. Financing, and therefore the participation of Czech athletes in the Olympic Games often depended on public contributions. This situation changed with the coming of the Communist regime in 1948. Communist Czechoslovakia displayed its physical prowess to mask its ideological shortcomings and used its indisputable sporting successes to cover up its economic failures and deep social crisis – individual Czechs and Slovaks won many gold medals in the Olympics and World Championships. Athletes, such as the track star Emil Zatopek and the gymnast Vera Caslavska, became famous throughout the world, solely on the basis of their talents and efforts.

The people's favourite sports are soccer and ice hockey, and in the last twenty years tennis has also achieved extraordinary popularity. The Czechoslovakian soccer team twice reached the finals of the World Cup: the first time in Italy in 1934, and the second time in Chile in 1962. Both times, they were runners-up. In 1976, the team were European champions. The most famous of the club teams is Sparta Prague.

The second favourite sport in the Czech Republic is ice hockey. Czechoslovakia has won the world championship on five occasions: the first time was in 1947, and the most recent was in 1985. After the Soviet occupation of the country in 1968, matches against the Soviet Union became highly charged and indisputably political events, because people saw these games as the only fair trial of strength against an occupying superpower. In 1969, following two victories over the USSR in the world championships in Sweden, Prague experienced its first and only spontaneous popular demonstration brought on by sporting success.

The successes in tennis of Ivan Lendl and Martina Navratilova are admired all over the world. Even though both of them emigrated during the time of Soviet normalization and became American citizens, the sporting public still considers them Czech sporting personalities. The Czech tennis school of today owes its success to the example they have given to youth; the large number of juniors tournaments backed by tremendous parental enthusiasm will hopefully produce many more players who sacrifice a great deal, so that their children will grow up to be like Lendl and Navratilova.

Czech sport has lived through two great waves of migration. The first wave consisted of hundreds of leading athletes and dozens of coaches who fled the totalitarian state as political refugees. Many went on to achieve outstanding success in their new domiciles.

The second wave of migration came after the democratic changes of 1989, when the borders were opened and the elite of the sporting world began to turn professional. Many of the soccer and ice hockey players were offered advantageous contracts abroad. The world's most famous ice hockey league, the National Hockey League of Canada and the USA, employs nearly 30 Czech and Slovak players. Of the soccer players, at least two goalkeepers are playing in England: Miklosko with West Ham United, and Stejskal with Queens Park Rangers. Of the forwards, Danek, in Austria and Skuhravy, in Italy, are becoming famous.

At the Olympics in Barcelona, the CSFR won four gold, two silver, and one bronze medal, and finished an overall 15th. In addition to the golds of marksman Petr Hrdlicka and water slalom specialist Lukas Pollert, Czech athletes also fought their way to two highly prestigious gold medals in track and field: Robert Zmelik in the decathlon and Jan Zelezny in the javelin.

Inventions: pride in the past, hope for the future

MACHINE industry, electrical engineering and chemistry are three fields in which Czech technicians and scientists, by virtue of their remarkable discoveries, have been able to cross borders and write their names for eternity into human history.

The first Czech inventor to reach world-wide significance was Josef Ressel (1793-1857). On the basis of experiments with the Archimedean screw, he developed a new kind of propeller, which was first tested in the port of Trieste. Ressel, however, did not receive recognition until after his death, when his propeller began to be mass-produced.

Frantisek Krizik (1847-1941) experimented with the development and production of electronic equipment, especially in the field of direct currents. Krizik's exact regulator of the electric arc lamp had world-wide importance, as this lamp became widely used due to his efforts. Money from the license of the regulator combined with Krizik's inventiveness led to the construction of the first electric power station, tram lines and electric railway in the Czech lands.

Perhaps the most important Czech contribution to world science was the work of two chemists, Jaroslav Heyrovsky (1890-1967) and Otto Wichterle. The former invented the polarograph, the latter contact lenses.

The discovery of the polarographic method was not the actual goal of Heyrovsky's research, but was a by-product of his attempts to explain irregularity in dripping mercury. This he was not able to achieve, but in measuring electric current on the galvanometer, by which he wanted to automate the performance of the drops, he realised that by measuring the current running through the liquid, he could determine its consistency, including small material admixtures. Heyrovsky published his polarographic method in 1922, and built the first polarograph three years later. Today polarography is used not only for research, but also in the automation of the chemical, metallurgical, food and pharmaceutical industries, in medicine to track the course of some illnesses including cancer, and in ecology to control atmospheric conditions. For his invention, Jaroslav Heyrovsky was awarded a Nobel Prize in 1959.

Wichterle's invention of the contact lens came about by an accident of discovery similar to that of Heyrovsky's polarograph. Wichterle was trying to develop an optical prosthesis which would not be rejected by the eye. In testing synthetic hydrogels, he discovered that this new material had excellent optical qualities. At that moment, the discovery of contact lenses was only a step away and Wichterle made the first set at his home with a machine constructed from a child's building set!

Jaroslav Heyrovský: inventor of polarograph

Otto Wichterle: creator of the contact lenses

THE CZECH REPUBLIC

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